An Analysis of Congressional Budget Estimates for Fiscal Years 1980–1982

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AN ANALYSIS OF CONGRESSIONAL BUDGET ESTIMATES FOR FISCAL YEARS 1980, 1981, AND 1982

The Congress of the United States

Congressional Budget Office

NOTES

Unless otherwise noted, all years referred to in this report are fiscal years.

Details in the text, tables, and figures of this report may not add to the totals because of rounding.

PREFACE

The Congressional Budget Office (CBO) prepared this paper as part of its ongoing responsibility under the Congressional Budget Act to tabulate the progress of Congressional action on the budget in comparison to the figures specified in the annual budget resolutions. The paper compares actual revenues and outlays for fiscal years 1980, 1981, and 1982 with the assumptions used by the Congress in its budget resolutions, and analyzes the differences. CBO uses results of this analysis to update and improve its revenue and outlay estimating methods.

The analyses of revenue and outlay estimates were prepared by the staffs of the Budget Analysis and Tax Analysis Divisions, under the supervision of James L. Blum and Rosemary D. Marcuss. The principal authors were Paul N. Van de Water (Chapters I, II, and IV) and Kathleen M. O'Connell (Chapter III). Patricia Kinslow prepared the tables in the appendixes. Francis S. Pierce edited the report, which was prepared for publication by Sherri McLain, Linda Brockman, and Nancy H. Brooks.

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Director

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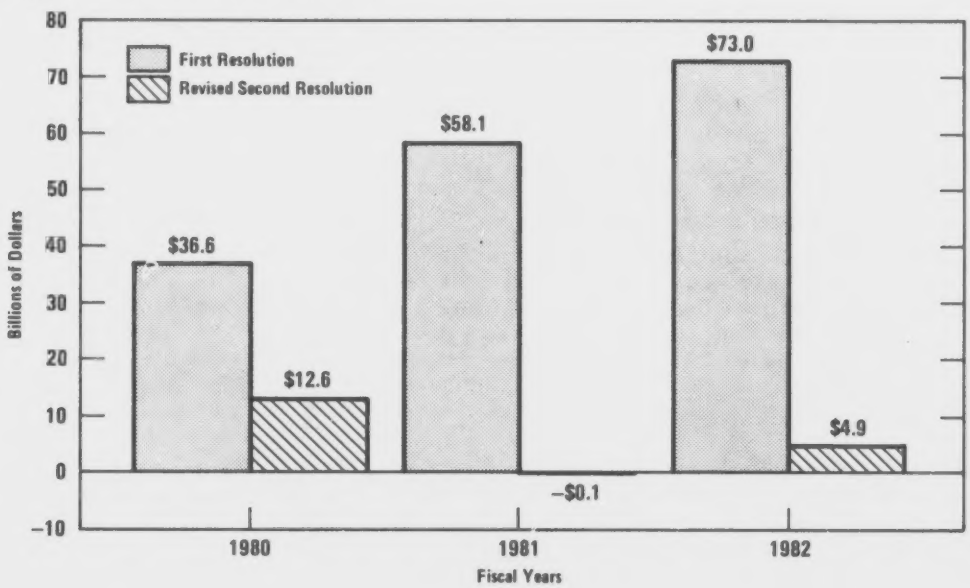
CHAPTER I. SUMMARY AND INTRODUCTION

The federal budget deficit surpassed the target in the first Congressional budget resolution by increasing amounts in fiscal years 1980, 1981, and 1982. Figure 1 displays the deficit overruns--$36.6 billion in the 1980 first resolution, $58.1 billion in 1981, and $73.0 billion in 1982. The estimates in the revised second budget resolutions were closer to the mark, however. The deficit was $12.6 billion higher than the revised second resolution figure in 1980, $0.1 billion lower in 1981, and $4.9 billion higher in 1982.

Underestimates of outlays and overestimates of revenues both contributed to the higher deficits in the 1981 and 1982 first budget resolutions, as shown in Table 1. But higher-than-expected revenues somewhat offset the outlay overrun in the first resolution for 1980. In the revised second budget resolutions, revenue and outlay misestimates compounded in 1980 but offset each other in 1981 and 1982.

Figure 1. Deficit Misestimates



REASONS FOR MISESTIMATES

This report analyzes the causes of these overruns and shortfalls in fiscal years 1980, 1981, and 1982. Previous Congressional Budget Office (CBO) reports have covered fiscal years 1977, 1978, and 1979.[1] The sources of the misestimates can be grouped in four categories:

- **Economic assumptions.** Budget estimates may prove inaccurate if the economic assumptions on which they are based are not borne out. An unexpectedly weak economy, for example, will reduce federal tax receipts and increase spending for unemployment compensation and welfare benefits.

- **Legislative assumptions.** In drafting a budget resolution, the Congress must make assumptions about the timing and likely effects of pending tax legislation and spending proposals. If the actions taken by the Congress differ from those assumed, the resolution estimates are likely to be inaccurate.

- **Administrative assumptions.** Unanticipated actions or lack of action by federal agencies can cause unexpected increases or decreases in outlays and revenues.

- **Technical assumptions.** Some differences between estimates and outcomes are the result of imprecise estimating methods and other factors that do not fit into the categories above. For example, no one can predict exactly how many people will apply for Social Security benefits next year or how large payroll tax collections will be, even if the economic and legislative assumptions of the budget resolution are completely borne out.

Table 2 summarizes the analysis. The figures are CBO estimates based on Budget Committee reports and other information. No attempt has been made to analyze the second budget resolution for 1981, because that resolution was not based on clearly defined policy assumptions. In 1982, the second budget resolution was the same as the first.

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1. Congressional Budget Office, Estimates of Federal Budget Outlays (February 1978); Analysis of the Shortfall in Federal Budget Outlays for Fiscal Year 1978 (March 1979); An Analysis of Congressional Economic Forecasts and Budget Estimates for Fiscal Year 1979 (February 1980).

TABLE 1. CONGRESSIONAL BUDGET RESOLUTION ESTIMATES COMPARED WITH ACTUAL BUDGET TOTALS, FISCAL YEARS 1980-1982 (In billions of dollars)

	Amount			Actual Minus Resolution		
	Revenues	Outlays	Deficit	Revenues	Outlays	Deficit
Fiscal Year 1980[a/]						
First resolution	509.0	532.0	23.0	11.1	47.6	36.6
Second resolution	517.8	547.6	29.8	2.3	32.0	29.8
Revised second resolution	525.7	572.6	47.0	-5.6	7.0	12.6
Actual	520.1	579.6	59.6			
Fiscal Year 1981[a/]						
First resolution	613.8	613.6	-0.2	-11.2	46.9	58.1
Revised second resolution	603.3	661.4	58.0	-0.7	-0.8	-0.1
Actual	602.6	660.5	57.9			
Fiscal Year 1982						
First resolution	657.8	695.4	37.6	-40.0	32.9	73.0
Revised second resolution	628.4	734.1	105.7	-10.6	-5.7	4.9
Actual	617.8	728.4	110.6			

a. To provide comparability with the budget resolution figures, the actual revenue and outlay totals for 1980 and 1981 have been adjusted as described in Appendix A.

FIRST BUDGET RESOLUTIONS

The sources of misestimates in the first budget resolutions varied considerably from year to year, as shown in Figure 2. Inaccurate economic assumptions accounted for the bulk of the budget misestimates for 1982, while inaccurate technical assumptions were the largest source of estimating errors in 1980 and 1981. Inaccurate legislative assumptions also were a major contributing factor to the 1981 budget misestimates.

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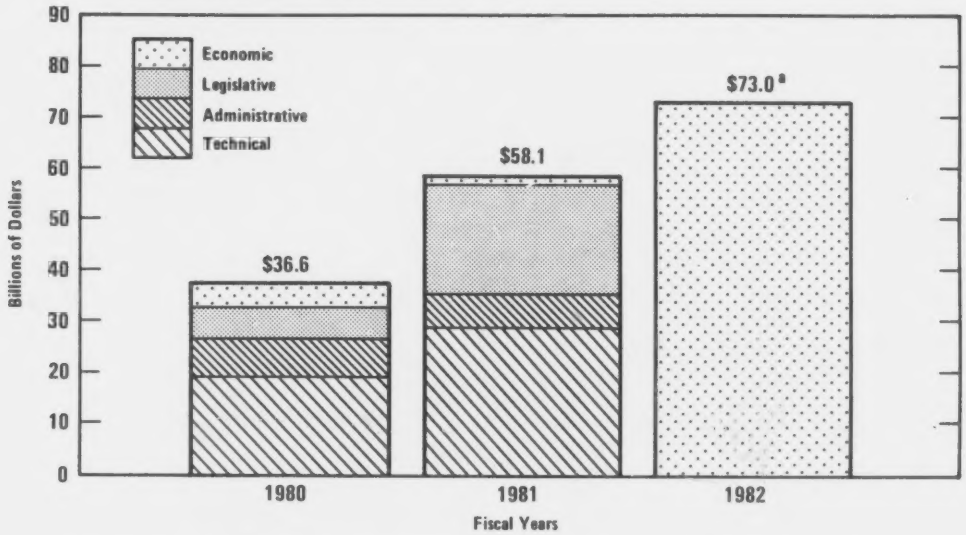
TABLE 2. SOURCES OF DIFFERENCES BETWEEN ACTUAL BUDGET TOTALS AND BUDGET RESOLUTION ESTIMATES, FISCAL YEARS 1980-1982 (In billions of dollars)

	Actual Minus Resolution						
	1980			1981		1982	
	First Res.	Second Res.	Revised Second Res.	First Res.	Revised Second Res.	First Res.	Revised Second Res.
Revenues							
Economic assumptions	8.4	12.6	-3.0	5.0	-2.7	-51.9	-5.2
Legislative assumptions	6.2	1.1	0.0	-3.7	5.2	13.0	0.2
Administrative assumptions	---	---	---	---	---	---	---
Technical assumptions	-3.5	-11.4	-2.7	-12.6	-3.3	-1.1	-5.6
Total differences	11.1	2.3	-5.6	-11.2	-0.7	-40.0	-10.6
Outlays							
Economic assumptions	12.4	5.5	1.3	6.4	2.0	24.1	0.8
Legislative assumptions	12.4	6.1	0.8	17.9	-0.7	1.1	-1.3
Administrative assumptions	7.2	6.1	0.4	6.6	0.5	0.1	-0.7
Technical assumptions	15.6	14.3	4.5	16.0	-2.7	7.7	-4.5
Total differences	47.6	32.0	7.0	46.9	-0.8	32.9	-5.7
Deficit							
Economic assumptions	4.0	-7.1	4.3	1.4	4.7	76.0	6.0
Legislative assumptions	6.2	5.0	0.8	21.6	-5.9	-11.9	-1.5
Administrative assumptions	7.2	6.1	0.4	6.6	0.5	0.1	-0.7
Technical assumptions	19.1	25.7	7.2	28.6	0.6	8.8	1.1
Total differences	36.6	29.8	12.6	58.1	-0.1	73.0	4.9

Figure 2. Sources of Deficit Underestimates in the First Budget Resolutions



[a] Misestimates owing to legislative, administrative, and technical assumptions not shown separately.

Fiscal Year 1980

Inaccurate technical assumptions were responsible for just over half ($19.1 billion) of the $36.6 billion deficit misestimate in fiscal year 1980. Outlays were underestimated for a wide variety of programs, particularly national defense, while corporate income tax revenues were overestimated for technical reasons. Inaccurate economic, legislative, and administrative assumptions each contributed about equally to the remainder of the deficit overrun.

Fiscal Year 1981

In 1981 technical factors again caused about half of the $58.1 billion deficit underestimate in the first budget resolution. The largest technical misestimates were, however, in different programs than in 1980. The total technical difference was $28.6 billion, consisting of a revenue shortfall of

$12.6 billion and an outlay overrun of $16.0 billion. On the revenue side, the largest shortfalls were in individual income taxes and payroll taxes. On the outlay side, the largest technical overruns were for farm price supports (resulting from a record grain harvest), Medicare and Medicaid (because of higher-than-expected hospital utilization and medical costs), and net interest (caused by the effect on debt service costs of technical errors in estimating revenues and other outlays).

A little over one-third ($21.6 billion) of the deficit overrun in the 1981 first resolution resulted from inaccurate legislative assumptions. Spending exceeded resolution targets by $17.9 billion for legislative reasons, of which $8 billion was due to higher appropriations for national defense and the strategic petroleum reserve. Revenues were $3.7 billion below target, largely because of the Economic Recovery Tax Act of 1981, which was not anticipated in the first budget resolution.

Fiscal Year 1982

Virtually the entire deficit misestimate of $73.0 billion in the first budget resolution for 1982 resulted from inaccurate economic assumptions. The economic assumptions for the 1982 first resolution, which were based on the Administration's forecast, did not foresee the recession that developed in 1981 and intensified in 1982. As a result, tax revenues fell almost $52 billion short of the resolution target. Outlays exceeded the resolution amounts by $24.1 billion, largely because of higher federal interest costs resulting from unexpectedly tight credit conditions and higher deficits.

Misestimates resulting from inaccurate legislative and technical assumptions were largely offsetting. Inaccurate legislative assumptions subtracted $11.9 billion from the resolution deficit, primarily because taxes were cut $13 billion less than the resolution assumed. But inaccurate technical assumptions added $8.8 billion to the deficit, largely because of an $11 billion spending overrun for farm price supports.

REVISED SECOND BUDGET RESOLUTIONS

While the first budget resolution is adopted several months before the start of the fiscal year, the revised second resolution is put in place when the fiscal year is more than half over. After that point, Congressional actions and economic developments generally have little effect on the final

budget results. Therefore, as Table 2 shows, the differences between the revised second resolution targets and the actual revenues and outlays are attributable primarily to inaccurate technical assumptions. When the effects of inaccurate technical assumptions on revenues and outlays are offsetting, as they were in 1981 and 1982, the estimated deficit in the revised second resolution tends to be close to the actual outcome. The converse is also true, as in the revised second resolution for 1980, when revenues were overestimated and outlays were underestimated for technical reasons.

PLAN OF THIS REPORT

The remaining chapters of this report provide further details on the sources of misestimates in the Congressional budget resolutions for fiscal years 1980, 1981, and 1982. Chapter II reviews the economic assumptions on which the tax and spending targets were based. Chapters III and IV cover the revenue and outlay estimates, respectively.

CHAPTER II. ECONOMIC ASSUMPTIONS

The federal budget and the economy are locked in a circular relationship. The government's tax and spending policies affect the level of economic activity as well as the distribution of resources among competing uses. At the same time, the economy's performance affects both the outlay and the revenue sides of the budget.

Accurate estimates of the government's future revenues and outlays therefore require accurate forecasts of fiscal policy decisions and future economic conditions. Barring offsetting errors, inaccurate economic assumptions mean inaccurate estimates of revenues and outlays in the Congressional budget resolutions.

The outlook for the economy in recent years has been highly uncertain, for several reasons. Between 1979 and 1982, the economy did not grow at all in real terms--a situation unprecedented in the postwar era. Oil prices rose substantially during 1979 and 1980 (following an earlier oil price shock in 1973 and 1974). In 1979, the Federal Reserve System began to place much greater emphasis on controlling the growth of monetary aggregates, and subsequent financial innovations have changed the meaning of those aggregates. Substantial changes in federal government spending and taxing policies were enacted in 1981 and 1982. Because of these unusual circumstances, many recent economic forecasts have proved wide of the mark.

How accurate were the economic assumptions used for the budget resolutions for fiscal years 1980 through 1982? This chapter attempts to answer that question, beginning with the most recent year, when the economic assumptions used for the first budget resolution proved to be the furthest from the actual outcome.

FISCAL YEAR 1982 ECONOMIC ASSUMPTIONS

Congress completed action on the First Concurrent Resolution on the Budget for Fiscal Year 1982 in May 1981. Except for interest rates, the economic assumptions underlying this resolution corresponded closely to

TABLE 3. ECONOMIC ASSUMPTIONS FOR FISCAL YEAR 1982 BUDGET RESOLUTIONS AND ACTUAL VALUES (By calendar year)

	First Resolution		Revised Second Resolution	Actual Values	
	1981	1982	1982	1981	1982
Gross National Product					
Current dollars (Billions)	2,941	3,323	3,116	2,954	3,073
1972 dollars (Billions)	1,511	1,572	1,497	1,514	1,485
Real growth (Percent)	2.0	4.2	-0.9	2.6	-1.9
Prices (Percent change)					
GNP deflator	9.7	8.6	7.4	9.4	6.0
Consumer Price Index[a/]	11.1	8.3	6.9	10.4	6.1
Unemployment Rate (Percent)[b/]	7.5	7.2	9.1	7.6	9.7
Taxable Incomes (Billions of dollars)					
Wages and Salaries	1,498	1,682	1,577	1,493	1,568
Nonwage personal income[c/]	541	612	593	566	591
Corporate profits[d/]	242	280	206	227	174
3-Month Treasury Bill Rate (Percent)[e/]	13.5	10.5	12.0	14.1	10.7

a. All urban consumers.
b. All civilian workers.
c. Proprietors' income and personal rental, dividend, and interest income.
d. Profits before tax.
e. Auction average rate.

those used by the Reagan Administration for its 1982 budget revisions.[1/] The assumptions, which are shown in Table 3, reflected the view of both the Administration and the Congress that the fiscal policies and monetary restraint in the President's economic program, together with a general

1. U.S. Congress, Conference Report (To Accompany H. Con. Res. 115), First Congressional Budget Resolution--Fiscal Year 1982, H. Rept. 97-46, 97:1; U.S. Office of Management and Budget, Fiscal Year 1982 Budget Revisions, (March 1981).

lowering of inflationary expectations, would lead to a steady reduction in inflation and substantial economic growth.

The assumptions for the 1982 first resolution left intact the Administration's assumptions of rapid growth and declining inflation but raised the interest rate assumptions. In the event, interest rates even higher than those assumed led to the recession that developed in 1981 and intensified in 1982. While the budget resolution assumed that real gross national product (GNP) would grow by 4.2 percent in calendar 1982, it actually declined by 1.9 percent. Unemployment rose to 9.7 percent of the civilian labor force instead of declining to 7.2 percent, as assumed. Inflation abated more quickly than assumed in the budget resolution because of the recession, a worldwide slump in commodity prices, and a strong appreciation of the dollar on foreign exchange markets. Measured by the rate of growth of the GNP deflator, inflation in 1982 was only 6.0 percent instead of the assumed 8.3 percent. Both the lower real growth and the lower inflation caused all categories of taxable income to fall below projections, especially corporate profits, which are highly sensitive to the business cycle.

Forecasting errors were less marked in the assumptions of the revised second budget resolution for 1982, adopted in June 1982. These assumptions were agreed upon in budget negotiations among representatives of the Administration, the House, and the Senate, and represented an updating of the Congressional Budget Office's January 1982 forecast.[2/] The resolution assumed that an economic recovery would begin in the second half of 1982, that inflation would remain low, and that interest rates would decline markedly as a direct result of the deficit reduction measures assumed in the budget resolution.

Although this forecast proved accurate in broad terms, the persistence of high long-term interest rates delayed the start of the recovery. Credit conditions during the first half of 1982 turned out to be much tighter than anticipated, in part because of an unexpected increase in wealthholders' demand for liquidity, and the trough of the recession was not reached until November. The assumed rate of real economic growth for calendar year 1982 turned out to be 1.0 percentage points too high, and the assumed unemployment rate was 0.6 percentage points too low. The projection of

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2. U.S. Congress, Conference Report (To Accompany S. Con. Res. 92), First Concurrent Resolution on the Budget--Fiscal Year 1983, S. Rept. 97-478, 97:2.

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inflation, as measured by the GNP deflator, was about 1½ percentage points too high.

FISCAL YEAR 1981 ECONOMIC ASSUMPTIONS

The First Concurrent Resolution on the Budget for Fiscal Year 1981 (incorporating revisions to the second budget resolution for fiscal year 1980) was based on a Congressional Budget Office forecast of March 5, 1980.[3] The forecast, detailed in Table 4, assumed a mild recession in 1980 followed by a modest recovery in 1981. Real GNP was projected to decline through the middle of 1980 but to start to recover by the end of the year. The rate of unemployment was projected to rise to above 7.0 percent by the end of 1980 and to remain near 7.5 percent through 1981. Inflation was expected to remain high in the first half of 1980, begin to slow after the onset of the recession, and fall gradually through 1981; relief from prevailing double-digit rates of inflation was not expected until late in 1980. Interest rates were expected to start dropping by the end of 1980, as inflation abated.[4]

These economic assumptions were largely borne out in actuality. Real GNP declined slightly in 1980 instead of remaining level, but this was more than offset by a growth rate in 1981 that proved slightly higher than assumed. The unemployment rate in 1981 turned out to be just 0.1 percentage points higher than assumed, while the rate of inflation, as measured by the GNP deflator, was just 0.3 percentage points lower than forecast.

The greatest error in the forecast was in interest rates. Rapid inflation and changes in the financial structure made it particularly difficult to assess the effects of monetary policy during this period. Money aggregates grew very rapidly in the second half of 1980, suggesting an expansive monetary policy, but interest rates rose to record levels. Then, starting in April 1981, the growth of the money supply slowed. The three-month Treasury bill rate, assumed by the budget resolution to decline to 9.7

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3. U.S. Congress, Conference Report (To Accompany H. Con. Res. 307), First Concurrent Resolution on the Budget, Fiscal Year 1981, H. Rept. 96-1051, 96:2.

4. U.S. House of Representatives, Committee on the Budget, Report to Accompany H. Con. Res. 307, First Concurrent Resolution on the Budget--Fiscal Year 1981, H. Rept. 96-857, 96:2.

TABLE 4. ECONOMIC ASSUMPTIONS FOR FISCAL YEAR 1981 BUDGET RESOLUTIONS AND ACTUAL VALUES (By calendar year)

	First Resolution		Revised Second Resolution	Actual Values	
	1980	1981	1981	1980	1981
Gross National Product					
Current dollars (Billions)	2,590	2,875	2,941	2,632	2,954
1972 dollars (Billions)	1,432	1,448	1,511	1,475	1,514
Real growth (Percent)	0	1.1	2.0	-0.3	2.6
Prices (Percent change)					
GNP deflator	9.3	9.7	9.7	9.2	9.4
Consumer Price Index[a/]	13.0	9.6	11.1	13.5	10.4
Unemployment Rate (Percent)[b/]	6.8	7.5	7.5	7.1	7.6
Taxable Incomes (Billions of dollars)					
Wages and salaries	1,355	1,494	1,498	1,357	1,493
Nonwage personal income[c/]	442	481	541	472	566
Corporate Profits[d/]	234	260	242	235	227
3-Month Treasury Bill Rate (Percent)[e/]	12.4	9.7	13.5	11.6	14.1

a. All urban consumers.
b. All civilian workers.
c. Proprietors' income and personal rental, dividend, and interest income.
d. Profits before tax.
e. Auction average rate.

percent in calendar 1981, actually skyrocketed to 14.1 percent. Partly because of this rise in interest rates, the rate of increase of consumer prices fell less than the budget resolution assumed.

The revised second budget resolution for fiscal year 1981 was adopted along with the first budget resolution for fiscal year 1982. The economic assumptions underlying that resolution were discussed in the previous section.

FISCAL YEAR 1980 ECONOMIC ASSUMPTIONS

In January 1979, as the Congress prepared to consider the first budget resolution for fiscal year 1980, the Congressional Budget Office wrote: "Although the economy does not yet show significant signs of weakening, continued high rates of inflation appear to be sowing the seeds of a downturn. . . . The prospect of continued high and rising interest rates for many months makes a subsequent downturn in economic activity the most likely outcome."[5] Three months later the House Budget Committee saw the economy "delicately balanced on the edge of both recession and rapidly rising inflation."[6]

The economic assumptions for the first budget resolution for fiscal year 1980, shown in Table 5, were adopted in May 1979.[7] They were similar to CBO's January forecast and reflected a likely economic slowdown, if not a full-fledged recession. Real economic growth was projected to fall from 3.3 percent in calendar year 1979 to 2.1 percent in 1980. With real growth below its potential, the unemployment rate was expected to rise from 6.0 percent in 1979 to an average of 6.5 percent the following year. Inflation was expected to remain relatively high in 1979 and 1980, with the Consumer Price Index increasing about 8 percent in each year. Short-term interest rates were assumed to peak in the second quarter of 1979.

By midsummer 1979, it had become clear that the economic assumptions of the first budget resolution for 1980 were overly optimistic. Unexpectedly sharp rises in food and fuel prices pushed up the overall inflation rate, and the rapid rise in consumer prices contributed to a decline in total real spending during the second quarter of the year. In its midyear economic update, the Congressional Budget Office concluded: "The most likely outcome for the remainder of 1979 is a mild recession with rising unemployment and high, but moderating, rates of inflation. Economic

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5. Congressional Budget Office, The Fiscal Policy Response to Inflation, (January 1979), p. xiv.

6. U.S. House of Representatives, Committee on the Budget, Report to Accompany H. Con. Res. 107, First Concurrent Resolution on the Budget--Fiscal Year 1980, H. Rept. 96-95, 96:1, p. 23.

7. U.S. Congress, Conference Report (To Accompany H. Con. Res 107), First Concurrent Resolution on the Budget, Fiscal Year 1980, H. Rept. 96-211, 96:1, p. 8.

TABLE 5. ECONOMIC ASSUMPTIONS FOR FISCAL YEAR 1980 BUDGET RESOLUTIONS AND ACTUAL VALUES (By calendar year)

	First Resolution		Second Resolution		Revised Second Resolution	Actual Values	
	1979	1980	1979	1980	1980	1979	1980
Gross National Product							
Current dollars (In billions)	2,364	2,594	2,336	2,571	2,590	2,418	2,632
1972 dollars (In billions)	1,432	1,462	1,410	1,424	1,432	1,479	1,475
Real growth (In percent)	3.3	2.1	1.8	1.0	0	2.8	-0.3
Prices (Percent change)							
GNP Deflator	a/	7.5	a/	9.0	9.3	8.6	9.2
Consumer Price Index b/	8.4	7.8	10.6	9.3	13.0	11.3	13.5
Unemployment Rate (In percent) c/	6.0	6.5	6.2	7.2	6.8	5.8	7.1
Taxable Dollar Incomes (In billions)							
Wages and salaries	1,239	1,362	1,221	1,341	1,355	1,237	1,357
Nonwage personal income d/	388	428	391	434	442	429	472
Corporate profits e/	223	235	224	239	234	253	235
Three-Month Treasury Bill Rate (In percent) f/	9.2	7.7	9.1	8.4	12.4	10.0	11.6

a. Data not available.
b. All urban consumers.
c. All civilian workers.
d. Proprietors' income and personal rental, dividend, and interest income.
e. Profits before tax.
f. Auction average rate.

activity is projected to turn up in 1980. Given current budget policy, however, the recovery is expected to be weak by historical standards, and the unemployment rate is projected to remain above 7 percent throughout 1980."8/ CBO's summer economic forecast was used as the basis for the

8. Congressional Budget Office, The Economic Outlook for 1979-1980: An Update (July 1979), p. xvii.

Second Concurrent Resolution on the Budget for Fiscal Year 1980, adopted in November 1979.[9]

In the very short run, the economy showed itself more robust than CBO and the second budget resolution assumed. Instead of declining, real GNP grew during both the third and fourth quarters of calendar 1979. High rates of inflation, however, once again proved more persistent than expected, and the Consumer Price Index rose at a 14.1 percent rate in the final quarter of the year. This acceleration in the rate of inflation, together with the efforts of the Federal Reserve to reduce that inflation, caused the economy to move into recession at the beginning of 1980. On a year-over-year basis, real GNP declined by 0.3 percent in 1980, while the second budget resolution had assumed an increase of 1.0 percent. The three-month Treasury bill rate for 1980 averaged 11.6 percent, as opposed to the resolution's assumption of 8.4 percent, and inflation remained at double-digit rates throughout the year.

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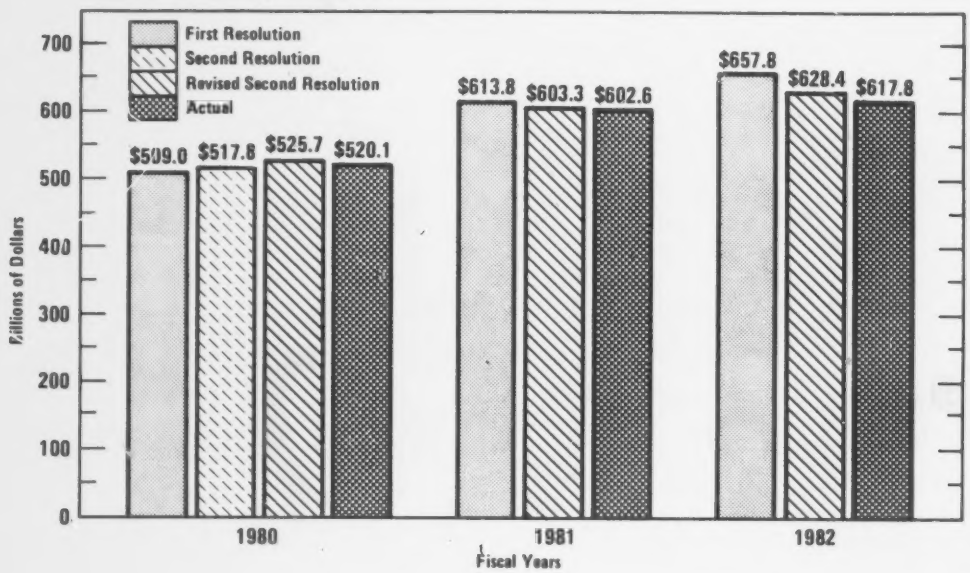
9. U.S. Congress, Conference Report (To Accompany S. Con. Res. 36), Second Concurrent Resolution on the Budget, Fiscal Year 1980, H. Rept. 96-582, 96:1.

CHAPTER III. REVENUE ESTIMATES

Unified budget revenues were lower than the targets contained in five of seven budget resolutions for fiscal years 1980, 1981, and 1982. As illustrated in Figure 3, actual receipts for 1980 exceeded the targets set forth in the first and second budget resolutions, but were less than the levels assumed in the revised second resolution. In 1981 and 1982, revenues were below the levels recommended in each budget resolution.

Collections were closer to revised second budget resolution targets than to first resolution targets. Differences between actual revenues and budget resolution estimates were usually fairly small, representing about 2 percent or less of actual revenues for all budget resolutions considered in this report except one (the first resolution for 1982).

Figure 3. Comparison of Actual Revenues to Budget Resolution Estimates



Estimating budget receipts requires accounting, statistical, and econometric procedures that depend on assumptions about the tax structure, possible tax legislation that will change the level of taxation, and future economic conditions. Errors invariably arise from each source: the estimating procedures and tax structure assumptions, the tax change assumptions, and the economic assumptions. This chapter discusses the relative importance of each source of error in the revenue estimates for the budget resolutions examined in this report.

Errors in Economic Assumptions. Federal budget revenues are particularly sensitive to economic conditions. The levels of taxable incomes determine the levels of income and payroll taxes, while the path of oil prices affects windfall profit tax receipts.1/ Other things being equal, the more actual economic conditions differ from the economic assumptions used in a budget resolution, the more the resolution's revenue estimates will differ from actual collections. This report discusses only those errors that can be calculated directly from the variables about which budget resolutions make explicit macroeconomic assumptions,2/ with the exception of the revised second resolutions for which actual monthly receipts data already available for the fiscal year in question are also considered.3/ Other factors that influence tax receipts such as work

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1. Payroll taxes are social insurance taxes and contributions. They include the Social Security tax (OASDHI), unemployment insurance taxes, civil service retirement contributions, railroad retirement contributions, and other smaller programs.

2. The economic variables used to calculate revenue estimating errors from this source are gross national product (GNP) in current dollars, GNP in constant 1972 dollars, the implicit price deflator for GNP, the Consumer Price Index for all urban consumers, the civilian unemployment rate, wage and salary disbursements, non-wage personal income, corporate profits before tax, the auction average rate on 91-day Treasury bills, and the wellhead price of crude oil. Chapter II shows budget resolution forecasts and actual values of some of these variables.

3. For revised second budget resolutions, which are usually passed several months after the fiscal year in question has begun, information from monthly tax collections for part of that year influences revenue estimates. Monthly collections reflect the changing economic circumstances of taxpayers, and when used to augment the economic forecast this information often leads to more accurate revenue estimates. Revisions in revenue estimates based on tax collection data are classified as economic in this report.

stoppages and interest rates on consumer borrowing are arguably economic in nature, but the economic forecasts used here do not provide sufficient detail to measure their effects.

Errors in Legislative Assumptions. Budget resolutions include recommendations to change the level of budget revenues by specified amounts. If the Congress enacts tax legislation with revenue effects that differ from those specified in the resolution, total receipts will differ from resolution assumptions. The major piece of tax legislation affecting the 1980-1982 period was the Economic Recovery Tax Act of 1981 (ERTA). A list of all tax legislation affecting the accuracy of budget resolution revenue assumptions for 1980, 1981, and 1982 is shown in Table 6.

TABLE 6. LEGISLATION AFFECTING REVENUE ASSUMPTIONS IN BUDGET RESOLUTIONS FOR FISCAL YEARS 1980-1982

	Enactment Date	Budget Year Affected	Revenue Effects (In billions of dollars)
Crude Oil Windfall Profit Tax Act of 1980 (P.L. 96-223)	April 2, 1980	1980	6.2
Omnibus Budget Reconciliation Act of 1980 (P.L. 96-499)	December 15, 1980	1981	3.6
Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (P.L. 96-510)	December 11, 1980	1981	0.3
Economic Recovery Tax Act of 1981 (P.L. 97-34)	August 13, 1981	1981	-3.4
		1982	-38.3

Errors in Technical Assumptions. For purposes of this report, technical assumptions are those not directly related to specified macroeconomic forecasts or monthly receipts data, or to assumptions about legislative action. They can include such assumptions about taxpayer behavior as how much personal income future taxpayers will contribute to Individual Retirement Accounts, or how many dollars of potential depreciation deductions businesses will actually claim, or how many gallons of oil will fall in each category of the windfall profit tax "tier" classification system. Such variables cannot be forecast with complete accuracy.

Two of the budget resolutions examined here reflect ad hoc adjustments to the revenue targets. In the first budget resolution for fiscal year 1981, the level of estimated revenues was increased by $3 billion in conference. In the revised second resolution for fiscal year 1982, the revenue total was increased by $1.2 billion in conference. These adjustments caused the budget resolutions to overestimate actual collections by more than they would have otherwise. Since these discrepancies are not related to any particular economic assumption or to any particular tax source, they are categorized as technical assumptions.

The total difference between actual and estimated budget revenues, then, can be assigned to errors in economic assumptions, legislative assumptions, and technical assumptions. Table 7 summarizes the allocation.

- Errors in economic assumptions were primarily responsible for errors in the revenue estimates of the first budget resolutions. This was especially true for fiscal year 1982.

- Errors in legislative assumptions were sizable in the first budget resolutions, but negligible in the revised second budget resolutions for 1980 and 1982. Errors of this type persisted in the revised second resolution for 1981.

- Errors in technical assumptions were small relative to total revenues. However, they were found in all comparisons since estimation methods are, by their nature, imperfect.

FISCAL YEAR 1982 REVENUE ESTIMATES

Both the first and the revised second budget resolution revenue targets exceeded actual budget revenues. Unified budget revenues in 1982 totaled $617.8 billion, $40.0 billion below the first budget resolution target and $10.6 billion below the revised second budget resolution target.

TABLE 7. SOURCES OF DIFFERENCES BETWEEN ACTUAL REVENUES AND BUDGET RESOLUTION ESTIMATES, FISCAL YEARS 1980-1982 (In billions of dollars)

Reason	Actual Minus Resolution						
	1980			1981		1982	
	First Resolution	Second Resolution	Revised Second Resolution	First Resolution	Revised Second Resolution	First Resolution	Revised Second Resolution
Economic Assumptions	8.4	12.6	-3.0	5.0	-2.7	-51.9	-5.2
Legislative Assumptions	6.2	1.1	0.0	-3.7	5.2	13.0	0.2
Technical Assumptions	-3.5	-11.4	-2.7	-12.6	-3.3	-1.1	-5.6
Total	11.1	2.3	-5.6	-11.2	-0.7	-40.0	-10.6

Deviations from the first budget resolution estimates caused by inaccurate economic assumptions were very large but were partially offset by the enactment of smaller tax reductions than specified in the resolution. The revised second resolution was off the mark partly because of overly optimistic economic assumptions but mainly for technical reasons.

Economic Assumptions

As discussed in Chapter II, the economic assumptions on which the budget conferees based the first budget resolution for fiscal year 1982 did not anticipate the 1981-1982 recession. Gross national product for 1982 was overestimated by $250 billion; its components, which comprise the income and payroll tax bases, were also substantially overestimated including the level of corporate profits. Oil prices turned out to be lower and interest rates higher than expected.

Four tax sources account for virtually all of the errors attributable to economic assumptions in the first budget resolution revenue estimates. Table 8 displays differences between actual receipts and resolution estimates by tax source.

TABLE 8. ERRORS IN FISCAL YEAR 1982 REVENUE ESTIMATES BECAUSE OF ECONOMIC ASSUMPTIONS (In billions of dollars)

Tax Source	Actual Minus Resolution	
	First Resolution	Revised Second Resolution
Individual Income Taxes	-13.1	-0.4
Corporate Income Taxes	-13.8	-0.9
Social Insurance Taxes	-10.8	-2.6
Windfall Profit Taxes	-14.2	-1.1
Other	0.0	-0.2
Total	-51.9	-5.2

Individual income tax receipts were $13 billion below the estimated level because lower-than-projected real growth and lower-than-projected inflation contributed to wage and salary and nonwage income levels far below those assumed in the first budget resolution. The depressed level of wages and salaries was also responsible for lower Social Security contributions; this explains most of the $11 billion error in the social insurance tax estimate.

As the recession deepened, many corporate taxpayers were especially hard hit. Corporate profits in 1982 were more than one-third below the first resolution assumption. This caused corporate income taxes to be almost $14 billion lower than the first resolution estimate.

Profits of oil producers declined also as oil prices fell, responding to weak worldwide demand. Of the first budget resolution's $16 billion overestimate of windfall profit taxes, 89 percent of the error was due to the drop in oil prices.

Differences between first resolution assumptions and actual receipts in other tax sources were small and offsetting.

The revised second budget resolution for fiscal year 1982 was passed by the Congress in June 1982, nine months after fiscal year 1982 began. The recession was well under way and its effects had been reflected in tax collections for several months. Although the resolution's economic assumptions still somewhat overestimated taxable incomes and interest rates and underestimated unemployment, this bias was largely offset by the monthly tax payments data that were used to assess the economy's influence on revenues for the remaining few months of the fiscal year. Therefore, the revenue assumptions in the revised second resolution anticipated the level of each tax source fairly accurately.

The individual income tax estimate was $0.4 billion and the corporate income tax estimate $0.9 billion above the actual revenue levels because of overoptimistic assumptions about the economy. Social insurance taxes and contributions were overestimated by more than $2 billion for this reason. Overestimates of oil prices caused resolution estimates of windfall profit taxes to be $1.1 billion too high. Federal Reserve System earnings, representing about 95 percent of miscellaneous tax receipts, are primarily determined by the System's holdings of government debt and the interest rates paid on those holdings. Overestimated short-term interest rates resulted in projected Federal Reserve earnings $300 million higher than actual receipts. All other discrepancies due to the economic outlook were minor.

Legislative Assumptions

Budget resolutions limit themselves to recommending amounts by which total unified budget revenues should be increased or decreased. They do not specify how this should be done, nor which tax source or sources should be affected. Therefore, "inaccuracy of legislative assumptions" can be discussed only in the aggregate, as the difference between the change in revenues specified in the resolution and the total change in revenues estimated to result from new legislation.

The first budget resolution for fiscal year 1982 called for a tax reduction of $51.3 billion, the same as that recommended in the Administration's budget.4/ A $51 billion tax reduction in a single year was several

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4. See Executive Office of the President, Office of Management and Budget, Fiscal Year 1982 Budget Revisions (March 1981), p. 15.

times larger than any past tax reduction, and represented a decrease 12 times larger than the tax increase called for in the previous year's first budget resolution.5/

The Economic Recovery Tax Act of 1981 (P.L. 97-34) was passed by the Congress and signed into law on August 13, 1981. ERTA provided a three-part cut in marginal tax rates on individual income, an accelerated system for depreciating plant and equipment by businesses, "savings incentives," and a number of smaller provisions. The total tax cut was estimated by CBO at about $38 billion, but it reduced fiscal year 1982 revenues by less than the budget resolution's assumption. That assumption therefore underestimated actual revenues by $13 billion.

The revised second budget resolution for 1982 did not propose major changes in tax legislation. It assumed, as is done traditionally, a small revenue reduction ($0.2 billion) to allow the tax-writing committees some discretion as the end of the fiscal year approached.6/ Since no new tax laws eventuated, the assumed reduction of $0.2 billion due to Congressional action contributed to the underestimate of actual revenues.

Technical Assumptions

Imprecise estimating methods and other technical factors caused the first budget resolution estimate of total revenues to be $1.1 billion higher than actual receipts in 1982. The revised second budget resolution revenue estimates proved to be overrestimated by a total of $5.6 billion due to these factors (Table 9).

The individual income tax estimate in the first budget resolution was affected very little by inaccurate technical assumptions but the estimate in the revised second resolution was $1.8 billion too high. The primary source of error was an incorrect estimate of the revenue consequences of expanding Individual Retirement Accounts (IRAs). Unanticipated widespread participation led to a very high level of IRA contributions and therefore lower receipts than expected at the time of the budget resolution.

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5. The first budget resolution for 1981 included a tax increase of $4.2 billion. This is discussed in the section on 1981 revenue estimates.

6. The Congressional tax-writing committees are the Committee on Finance of the U.S. Senate and the Committee on Ways and Means of the U.S. House of Representatives.

TABLE 9. ERRORS IN FISCAL YEAR 1982 REVENUE ESTIMATES BECAUSE OF TECHNICAL ASSUMPTIONS (In billions of dollars)

Tax Source	Actual Minus Resolution	
	First Resolution	Revised Second Resolution
Individual Income Taxes	0.1	-1.8
Corporate Income Taxes	2.2	-0.3
Social Insurance Taxes	-4.4	-0.9
Windfall Profit Taxes	-1.0	-1.0
Other Tax Sources	2.0	-0.4
Subtotal	-1.1	-4.4
Ad Hoc Adjustment	---	-1.2
Total	-1.1	-5.6

The first budget resolution underestimated 1982 corporate income taxes for technical reasons by a little over $2 billion and the revised second resolution overestimated corporate receipts by about $300 million. The underestimate in the first resolution can be attributed to overestimates of investment tax credits, which reduced the estimated effective corporate income tax rate. As fiscal year 1982 progressed, monthly tax payments by corporations were higher than the amounts owed as indicated by the resolution's assumptions about corporate profits. The revised second resolution, adopted nine months after the fiscal year began, recognized that receipts were running ahead of projected liabilities and estimated the extent to which this would continue during the rest of the fiscal year, overshooting by $300 million.

The largest single discrepancy categorized as a technical assumption arises in social insurance taxes and contributions, which were lower than estimated by $4.4 billion (first resolution) and $0.9 billion (revised second resolution). The first budget resolution assumed revenues of $3.9 billion from voluntary premium payments for hospital insurance and supplementary medical insurance (SMI). The Administration subsequently reclassified these revenues as offsetting receipts, which are recorded on the outlay side of the unified budget. This change had no effect on the budget deficit,

since it caused revenues and outlays to be overestimated by equal amounts. So most of the $4.4 billion overestimate is attributable to the Administration's redefinition of SMI. The remaining one-half-billion-dollar difference is due to a series of accounting adjustments made to correct an allocation of withheld taxes attributed to Social Security contributions. Almost all of the $0.9 billion error in the revised second resolution estimate is due to a similar adjustment.

Miscellaneous receipts exceeded estimates in each budget resolution for 1982 because of estimating inaccuracy: by a little over $2 billion for the first resolution and a little under $1 billion for the revised second resolution. Technical errors in other tax sources were small.

The estimate of total revenues in the revised second resolution for 1982 contained an adjustment that accounts for $1.2 billion of the total revenue overestimate. The ad hoc adjustment was made in conference. This $1.2 billion difference is classified as an inaccurate technical assumption.

FISCAL YEAR 1981 REVENUE ESTIMATES

Tax collections for fiscal year 1981 were $11.2 billion lower than the level anticipated in the first budget resolution, but only $0.7 billion below the level assumed in the revised second resolution. Differences by tax source appear in Table 10.

Economic Assumptions

The macroeconomic forecast assumed in the first budget resolution for 1981 was fairly accurate. Because of somewhat higher real economic growth and significantly higher interest rates, total revenues in 1981 exceeded the budget resolution estimate by $5 billion. By the time of the revised second resolution, the amount by which estimates were above actual receipts due exclusively to economic factors was $2.7 billion.

Actual individual income tax receipts were higher than the estimate in the first budget resolution. This is traceable to an underestimate of interest rates. Although the first budget resolution's assumption about wages and salaries was quite accurate, its assumption about nonwage income was $85 billion below the actual value. The unprecedented interest-rate spike of 1981 increased interest income dramatically. Rental income rose significantly, too. Actual income levels relative to resolution

TABLE 10. DIFFERENCES BETWEEN FISCAL YEAR 1981 REVENUES AND BUDGET RESOLUTION ESTIMATES (In billions of dollars)

Tax Source	Actual Minus Resolution	
	First Resolution	Revised Second Resolution
Individual Income Taxes	7.7	0.3
Corporate Income Taxes	-6.2	-3.1
Social Insurance Taxes	-1.8	-1.4
Windfall Profit Taxes	-5.4	-1.8
Federal Reserve Earnings	2.5	0.4
All Other Tax Sources	-1.4	-0.4
Subtotal	-4.6	-6.0
Ad Hoc Adjustment	-3.0	---
Resolution-Proposed Tax Change	-3.7	5.2
Total	-11.2	-0.7

assumptions suggest income taxes $10.8 billion above the resolution estimate; this is partially offset by inaccurate technical and legislative assumptions.

Corporate income tax receipts were $6 billion below the first resolution estimate. Of this, $4.4 billion is attributable to lower-than-projected corporate profits resulting at least partially from the unexpectedly high interest rates that made corporate debt service more expensive. Corporate taxes were $1 billion below the revised second resolution estimate for economic reasons. This is consistent with the relationship between the actual profits level and the resolution's profits projection: actual profits were several billions of dollars below estimated profits for 1981.

Oil prices were lower in 1981 relative to resolution assumptions. This accounts for windfall profit taxes of about $5 billion less than the first resolution estimate and of about $2 billion less than the revised second resolution estimate.

Actual interest rates considerably in excess of resolution assumptions had the direct result of increasing Federal Reserve system earnings relative to resolution, especially first resolution, levels. This generated actual receipts $3.1 billion and $0.5 billion higher than the first resolution and the revised second resolution assumptions, respectively.

Other discrepancies due to inaccurate economic factors were small. They totaled $0.9 billion for the first resolution estimates and $1.2 billion for the revised second resolution estimates.

Legislative Assumptions

Comparison of the revenue effects of enacted tax changes with the changes proposed by the budget resolutions shows that unanticipated tax legislation caused actual receipts to be $3.7 billion lower than the first resolution total and $5.2 billion higher than the revised second resolution estimate.

The first budget resolution for 1981 called for a revenue increase of $4.2 billion. Responding to reconciliation instructions, the Congressional tax-writing committees, for the most part, complied. The Omnibus Reconciliation Act of 1981 (P.L. 96-499) contained revenue-raising provisions worth $3.6 billion. The $0.6 billion difference contributed to the total discrepancy of $3.7 billion. Most of the remaining $3.1 billion resulted from the revenue reductions in the Economic Recovery Tax Act, passed more than a year after the first budget resolution for 1981. Though most of its provisions took effect in 1982 or after, businesses could reduce their 1981 taxes as a result of ERTA's accelerated cost recovery system. The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (P.L. 96-510, "Superfund"), established to ensure environmental clean-up by taxing the industrial producers of potentially hazardous petroleum products, added $0.3 billion to excise tax collections in 1981.

The revised second resolution anticipated the tax cuts enacted in ERTA, which was signed into law several weeks later. It recommended a revenue reduction of $8.6 billion. In fact, this was too large. ERTA's estimated effect on 1981 receipts was $3.4 billion, $5.2 billion less than the resolution's recommended tax change.

Technical Assumptions

Errors in the estimation procedures used for the budget resolutions for 1981 caused revenues to be overestimated by $12.6 billion in the first resolution and by $3.3 billion in the revised second resolution.

Individual income taxes were, for this reason, about $3 billion lower than estimated in the first resolution. Actual receipts were less than the revised second resolution estimate by half a billion dollars. A general lack of experience in estimating the revenue effects of regulation changes that were designed to speed up employer deposits of withheld income taxes contributed to these errors.

Corporate income taxes were below each resolution estimate by about $2 billion for technical reasons.

Payroll taxes also were lower by about $2 billion and $0.4 billion than the levels in the first and revised second resolutions, respectively. In both 1980 and 1981, the tax base for the Social Security tax was raised statutorily. Revenue projections based on the higher tax base overstated the fraction of total wages that became subject to tax. This accounts for most of the payroll tax overestimates for fiscal year 1981.

Other technical errors occurred mostly in excise tax and miscellaneous receipts estimates. In consequence, receipts were lower by $2.3 billion and $0.3 billion than the estimates in the first and revised second resolutions.

The first budget resolution for 1981 was one of the occasions, mentioned above, on which an ad hoc adjustment made in conference raised the projection of total revenues originally estimated by CBO by $3 billion. This contributed to the overestimate and is categorized here as an inaccurate technical assumption.

FISCAL YEAR 1980 REVENUE ESTIMATES

Federal receipts in fiscal year 1980 exceeded the targets of the first and second budget resolutions by $11.1 billion and $2.3 billion, respectively, but were $5.6 billion lower than the level specified in the revised second budget resolution. Differences are shown by tax source in Table 11. The economic forecast was the primary source of error in the first resolution estimates; economic and technical errors almost balanced each other in the second resolution, and in the revised second resolution they were roughly the same size.

TABLE 11. DIFFERENCES BETWEEN FISCAL YEAR 1980 REVENUES AND BUDGET RESOLUTION ESTIMATES (In billions of dollars)

Tax Source	Actual Minus Resolution		
	First Resolution	Second Resolution	Revised Second Resolution
Individual Income Taxes	10.1	7.2	2.3
Corporate Income Taxes	-5.7	-6.9	-5.4
Social Insurance Taxes	-0.6	-0.1	-2.5
Federal Reserve Earnings	3.0	2.9	1.0
All Other Tax Sources a/	-1.9	-1.9	-1.1
Subtotal	4.9	1.2	-5.6
Resolution-Proposed Tax Change	6.2	1.1	0.0
Total	11.1	2.3	-5.6

a. The windfall profit tax is included as a revenue source for the first time in the revised second resolution on fiscal year 1980.

Economic Assumptions

Incorrect forecasts of national economic activity resulted in underestimates of total revenues in the first two budget resolutions for 1980: by $8.4 billion in the first resolution and $12.6 in the second resolution. The revised second resolution overestimated revenues by $3 billion for the same reason.

Unexpectedly high personal income caused individual income tax receipts to exceed the first resolution estimate by $4.4 billion, the second resolution estimate by $6.6 billion, and the revised second resolution estimate by $2.6 billion. The unanticipated growth in nonwage income accounts for almost all of the error in the personal income forecast in the first and revised second resolutions, and about 70 percent of the error in that of the second budget resolution. In the first and second resolutions, this is directly related to the underestimated interest rates.

As a result of stronger-than-projected nominal incomes, corporate income taxes exceeded the first and second budget resolution target by $2-$3 billion. Economic forecast errors contributed $4 billion to the revised second resolution's overestimate. Although the forecasts of annual corporate profits before tax shown in Chapter II appear accurate, the pattern within the year was less accurate. Corporations earned higher profits earlier in the year than the first and second resolutions projected, resulting in faster payments of corporate income taxes than the revenue estimates assumed. The effect was incorporated in the revised second resolution's estimate. Because the higher payments did not continue throughout the fiscal year, this resulted in the $4 billion dollar overestimate.

Actual collections of social insurance contributions in 1980 were close to budget resolution estimates. They were lower than the first and the revised second resolution estimates by less than $1 billion and less than $2 billion, respectively, due to forecast errors; they exceeded the second resolution target by $1.7 billion as a result of somewhat higher-than-expected wage and salary disbursements.

The only other tax source for which resolution estimates differed significantly from actual revenues was Federal Reserve earnings. Interest rates in excess of levels projected in the first and second resolutions resulted in first and second resolution underestimates of Federal Reserve earnings by $3.3 billion and $2.8 billion, respectively. Interest rate assumptions in the revised second budget resolution, together with monthly collections data, resulted in a $0.6 billion underestimate.

Legislative Assumptions

The first and second budget resolutions for 1980, both passed in 1979, did not include estimates of windfall profit tax revenues because that tax was not enacted until April 1980. Therefore, the tax increased actual revenues above first and second resolution estimates.

Windfall profit tax receipts in 1980 totaled $6.2 billion. Since the first budget resolution called for no change in the total revenue level, the full $6.2 billion can in this instance be assigned to unanticipated congressional action. The second budget resolution recommended a revenue increase of $5.1 billion, so $1.1 billion above this target is attributable to inaccurate legislative assumptions.

The revised second budget resolution assumed no new legislative action and none was forthcoming. Therefore, assumptions about tax legis-

lation do not contribute to the discrepancy between actual 1980 revenues and the revised second resolution estimates.

Technical Assumptions

Actual revenues were also below budget resolution targets for 1980 as a result of technical factors. The differences total $3.5 billion, $11.4 billion, and $2.7 billion relative to the first, second, and revised second budget resolution revenues, respectively.

Most of the differences occurred in income and payroll taxes. Technical inaccuracies caused individual income taxes to exceed the first resolution estimate by $5.7 billion and to be above the second resolution estimate and below the revised second resolution estimate by less than $1 billion.

Technical errors in social insurance tax estimates were quite small in the first resolution, but caused revenues to be below the second and revised second resolution estimates by about $1-2 billion. As in 1981, much of this was due to the overestimate of the portion of total wages made taxable by statutory increases in the Social Security tax base.

Corporate income taxes were less than anticipated in the 1980 budget resolutions because of estimating errors. Overestimates of about $9 billion in the first and second resolutions were reduced to $1.4 billion in the revised second resolution.

Other revenue estimating errors in budget resolutions for 1980 were small and partially offsetting.

CONCLUSION

In general, the budget resolutions for 1980, 1981, and 1982 overestimated unified budget revenues. Sources of error were economic assumptions, especially for first budget resolution estimates; legislative assumptions, especially for 1981 and 1982; and technical assumptions, including ad hoc conference adjustment of original revenue estimates. Errors were rarely large relative to total revenues--less than 2 percent in six of seven budget resolutions examined here.

CHAPTER IV. OUTLAY ESTIMATES

Federal spending for fiscal years 1980-1982 exceeded the first budget resolution targets by an average of over $40 billion, as pictured in Figure 4. But spending came close to the figures in the revised second budget resolutions. This chapter examines the reasons for the differences between actual outlays and budget resolution estimates. It divides the differences into four categories according to their source:

Economic Assumptions. Spending for many progams is sensitive to the state of the economy. Unemployment compensation, for example, depends on the level of unemployment. Interest on the public debt varies with interest rates. Social Security and some other benefits are automatically adjusted for changes in the cost of living. An unforeseen turn in economic conditions may cause expenditures for these programs to differ from levels in a budget resolution.

Figure 4. Outlay Misestimates

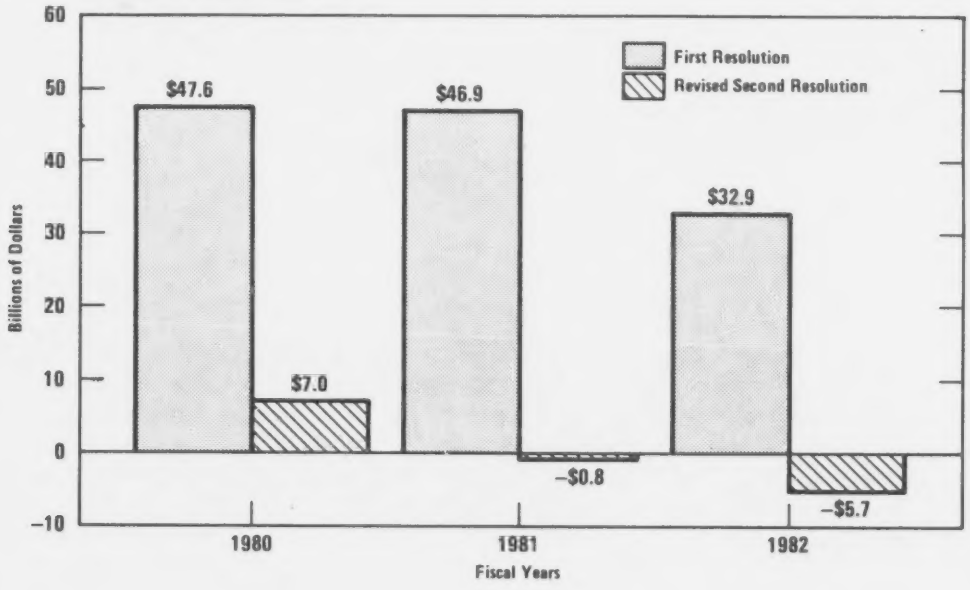

TABLE 12. SOURCES OF DIFFERENCES BETWEEN ACTUAL OUTLAYS AND BUDGET RESOLUTION ESTIMATES, FISCAL YEARS 1980-1982 (In billions of dollars)

Reason	Actual Minus Resolution						
	1980			1981		1982	
	First Res.	Second Res.	Revised Second Res.	First Res.	Revised Second Res.	First Res.	Revised Second Res.
Economic Assumptions	12.4	5.5	1.3	6.4	2.0	24.1	0.8
Legislative Assumptions	12.4	6.1	0.8	17.9	-0.7	1.1	-1.3
Administrative Assumptions	7.2	6.1	0.4	6.6	0.5	0.1	-0.7
Technical Assumptions	15.6	14.3	4.5	16.0	-2.7	7.7	-4.5
Total	47.6	32.0	7.0	46.9	-0.8	32.9	-5.7

Legislative Assumptions. The Congress can cause actual outlays to differ from budget resolution targets by failing to act on legislation assumed in a budget resolution, by enacting unforeseen legislation, or by taking action at a different time.

Administrative Assumptions. Federal agencies may take certain discretionary actions, such as the sale of loan assets, which can cause spending misestimates if not correctly anticipated. Occasionally, unexpected court decisions also affect spending.

Technical Assumptions. All misestimates that do not fit one of the previous categories are classified as technical. Spending estimates would be imprecise even if their economic, legislative, and administrative assumptions were completely borne out. For example, no one can predict exactly how many people will apply for Social Security benefits next year or how fast the Department of Defense will spend its appropriations. Nor can anyone foresee a drought that reduces outlays for farm price supports or a volcanic eruption that requires federal disaster assistance.

Figure 5. Sources of Outlay Misestimates in the First Budget Resolutions

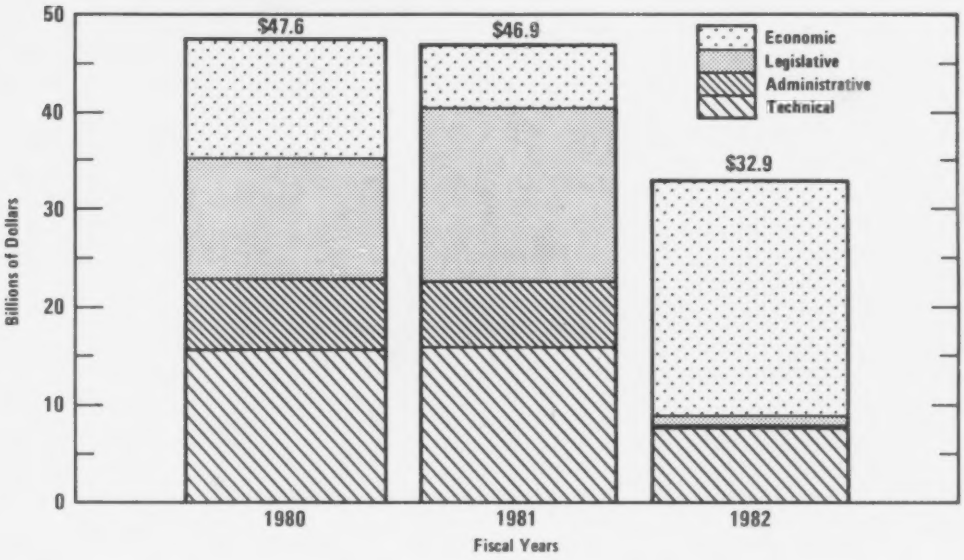

Table 12 allocates the differences between actual outlays and budget resolution targets among the four categories of error. The figures are CBO estimates based on Budget Committee reports and other information. Figure 5 illustrates graphically how the major sources of misestimates in the first budget resolutions differed from year to year.

- In 1980 widespread technical misestimates were the biggest problem. Inaccurate economic and legislative assumptions tied for second.

- In 1981 inaccurate legislative assumptions, primarily increased spending for defense and the strategic petroleum reserve, were the major cause of misestimates. Inaccurate technical assumptions followed closely.

- The 1982 outlay overrun was caused primarily by inaccurate economic assumptions, especially with regard to interest rates and unemployment.

The misestimates in the revised second budget resolutions were much smaller than those in the first resolutions. This is not surprising given that revised second budget resolutions are adopted much later in the fiscal year, when more is known about economic conditions and policy or program changes. In each year such misestimates as arose resulted mostly from inaccurate technical assumptions.

The remainder of this chapter discusses the reasons for the misestimates contained in the 1980-1982 budget resolutions. It discusses the sources of error separately for each year, beginning with 1982 and concluding with 1980. In this chapter the missestimates are arrayed primarily by sources; Appendix B gives the data by budget function and major program.

FISCAL YEAR 1982 OUTLAY ESTIMATES

Actual outlays for 1982 totaled $728 billion, $33 billion more than assumed in the first resolution, but $5.7 billion less than assumed in the revised second resolution. Of the $33 billion error in the first resolution, $24 billion resulted from inaccurate economic assumptions and $8 billion from technical errors.

Inaccurate Economic Assumptions

As shown in Table 13, spending misestimates for net interest were responsible for the lion's share of the outlay overrun from first resolution targets, contributing $19.1 billion to the total error. Average short-term interest rates in calendar years 1981 and 1982 were not far above those assumed in the resolution, as shown previously in Table 3. On a fiscal year basis, however, 3-month Treasury bill rates were underestimated by 0.9 percentage points in 1981 and 0.5 percentage points in 1982. Even more significant, rates on medium- and long-term maturities--in which the Treasury does half of its new borrowing--were more than two percentage points higher than assumed, as shown below.

Average Treasury Interest Rates (By fiscal year)

	3-Month Bills		5-Year Notes	
	1981	1982	1981	1982
1982 First Resolution	13.6	11.2	11.7	11.1
Actual Outcome	14.5	11.7	13.9	13.9

These errors in interest rate assumptions caused actual outlays to exceed targeted levels by $12.4 billion. In addition, because inaccurate economic assumptions caused the budget deficit to increase, the federal government's net interest expenditures rose a further $6.7 billion. (Throughout this report, the errors in estimating net interest costs that result from errors in deficit estimates are allocated proportionately to the underlying causes of error in the deficit estimate.)

TABLE 13. MISESTIMATES OF FISCAL YEAR 1982 OUTLAYS BECAUSE OF INACCURATE ECONOMIC ASSUMPTIONS (In billions of dollars)

	Actual Minus Resolution	
Major Program	First Resolution	Revised Second Resolution
Net Interest		
Interest rates	12.4	*
Deficits	6.7	0.3
Subtotal	19.1	0.3
Indexed Retirement and Disability Programs	-1.5	---
Unemployment Compensation	5.2	0.6
Food Stamps and Public Assistance	1.0	0.1
All Other	0.2	-0.1
Total	24.1	0.8

* Less than $50 million.

Inaccurate assumptions regarding the levels of inflation and unemployment were also major factors in the first resolution outlay misestimates. Outlays for numerous federal retirement and disability programs (including old-age and survivors insurance, disability insurance, civil service and military retirement, and railroad retirement) were overestimated by $1.5 billion because the actual rate of inflation was less than the resolution had assumed. The unemployment rate, on the other hand, was 2.5 percentage points higher than had been projected. This led to outlays being underestimated for unemployment compensation (by about $5 billion) and for food stamps and public assistance (by about $1 billion).

Outlay misestimates caused by inaccurate economic assumptions in the 1982 revised second budget resolution totaled only $0.8 billion. As in the first resolution, unemployment was higher than expected, leading to net outlay overruns of $0.6 billion for unemployment compensation and $0.1 billion for food stamps. Inaccurate interest rate assumptions had a negligible effect on the estimates; short-term rates were overestimated, but assumed long-term rates were too low. But interest payments were $0.3 billion higher because of a larger federal budget deficit. Lower inflation reduced other outlays by $0.1 billion.

Inaccurate Legislative Assumptions

Inaccurate legislative assumptions contributed little to the difference between actual outlays and the targets set in the first and revised second budget resolutions for 1982. They caused an outlay overrun of $1.1 billion relative to the first resolution and a shortfall of $1.3 billion relative to the revised second budget resolution. Table 14 gives the details.

TABLE 14. MISESTIMATES OF FISCAL YEAR 1982 OUTLAYS BECAUSE OF INACCURATE LEGISLATIVE ASSUMPTIONS (In billions of dollars)

	Actual Minus Resolution	
Major Program	First Resolution	Revised Second Resolution
National Defense	-3.9	-0.9
Transportation	0.5	0.1
Income Security	5.5	-0.1
Net Interest (Deficits)	-1.8	-0.1
All Other	0.8	-0.3
Total	1.1	-1.3

Actual defense program expenditures were $3.9 billion and $0.9 billion less than assumed in the first and revised second budget resolutions because the Congress appropriated less money. While all areas of defense spending were affected by this cut, the largest outlay reductions occurred in defense operations.

Inaccurate legislative assumptions also caused outlays for transportation programs to exceed the first and revised second budget resolutions by $0.5 billion and $0.1 billion, respectively. The first resolution did not reflect interest payments associated with the 1981 property settlement between Penn Central Corporation and the federal government. These interest payments added over $0.8 billion in total outlays for 1982. But appropriations for other transportation programs were, on balance, somewhat lower than assumed in the first resolution.

The largest legislatively induced errors in the first resolution occurred in federal income security programs. Outlays for these programs were $5.5 billion higher than anticipated, largely because the Congress failed to enact an assumed cap on cost-of-living adjustments in federal retirement programs, notably Social Security. In addition, higher appropriations for low-income energy assistance contributed $0.5 billion in additional spending.

Finally, because the Economic Recovery Tax Act cut taxes less in 1981 and 1982 than assumed in the first budget resolution, legislative action caused net interest outlays to fall $1.8 billion below the resolution. As noted earlier, however, inaccurate economic assumptions caused net interest outlays to rise by far more than inaccurate legislative assumptions caused them to fall.

Inaccurate Administrative Assumptions

Unanticipated actions taken by the executive branch during 1982 produced net outlays that were $0.1 billion more than the targets set in the first resolution and $0.7 billion less than the targets set in the revised second budget resolution. As shown in Table 15, the small net differences conceal some pluses and minuses.

Total federal energy program outlays were $0.6 billion less than assumed in the first resolution and $0.4 billion less than assumed in the revised second budget resolution. A decision by the Tennessee Valley Authority (TVA) to defer or cancel the construction of eight nuclear power plants produced most of the shortfall in both cases.

Education program outlays fell short of resolution estimates by $0.8 billion because the Administration instituted a new system for colleges and universities to submit bills for Pell grant funds. Shortfalls occurred despite the Administration's claim that all of the money was obligated as scheduled.

Lower-than-expected receipts from the sale of oil and gas leases on the outer continental shelf (OCS) offset other unanticipated administrative actions. A sale in the Gulf of Mexico that had been planned for 1982 at the time of the first resolution was postponed by the Administration until the following year. Since OCS receipts reduce net budgetary outlays, the delay increased federal expenditures above first resolution levels. This outlay overrun was partially offset by an unexpected court decision releasing funds to the federal government from escrow accounts. On balance, these administrative actions increased budget outlays $1.5 billion above first resolution targets.

TABLE 15. MISESTIMATES OF FISCAL YEAR 1982 OUTLAYS BECAUSE OF INACCURATE ADMINISTRATIVE ASSUMPTIONS (In billions of dollars)

	Actual Minus Resolution	
Major Program	First Resolution	Revised Second Resolution
Energy	-0.6	-0.4
Student Financial Assistance	-0.8	-0.8
OCS Receipts	1.5	---
All Other	*	0.5
Total	0.1	-0.7

* Less than $50 million.

Inaccurate Technical Assumptions

In 1982, technical estimating errors caused actual outlays to exceed the levels specified in the first resolution by $7.7 billion. Relative to the revised second budget resolution, however, technical errors produced outlays that were $4.5 billion lower than anticipated. Table 16 summarizes the major misestimates in this category.

TABLE 16. MISESTIMATES OF FISCAL YEAR 1982 OUTLAYS BECAUSE OF INACCURATE TECHNICAL ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution	
	First Resolution	Revised Second Resolution
National Defense	2.7	0.8
International Affairs	-1.2	-1.4
Energy	-0.5	-1.3
Agriculture		
Price supports	11.0	1.9
Other	0.6	0.4
Subtotal	11.6	2.3
Commerce and Housing Credit	-1.0	0.2
Community and Regional Development	-2.3	-1.4
Education	0.1	-1.0
Health	4.5	0.3
Medicare Premiums (accounting change)	-3.9	--
Income Security	-1.9	-2.5
Net Interest		
Deficits	*	-0.1
Other	-3.7	-1.4
Subtotal	-3.6	-1.5
OCS Receipts	3.5	1.9
All Other	-0.1	-0.8
Total	7.7	-4.5

* Less than $50 million.

Defense and International Affairs. After taking into account the legislated reductions discussed above, defense outlays were $2.7 billion higher than assumed in the first resolution and $0.8 billion higher than assumed in the revised second budget resolution because of technical estimating errors. Most of the error attributable to technical estimating problems in the two 1982 budget resolutions occurred in defense procurement. Actual procurement outlays were $3.8 billion higher than assumed in the first resolution and $2.0 billion higher than assumed in the revised second budget resolution. Contrary to resolution assumptions, production and delivery rates did not slow down, even with the large increases in procurement budget authority. For both resolutions the higher-than-expected outlays for procurement were partially offset by lower-than-expected spending for defense operations and other defense programs, particularly research, development, testing, and evaluation.

Actual outlays for various international affairs programs were approximately $1.2 billion lower than assumed in the first resolution and $1.4 billion lower than assumed in the revised second budget resolution. Inaccurate technical assumptions caused virtually all of the estimating error. The worldwide recession, together with tougher terms on new direct loans, reduced outlays for the Export-Import Bank by $1.0 billion relative to the first resolution and $0.7 billion relative to the revised second budget resolution. Numerous smaller misestimates, many of which were offsetting, were responsible for the remaining outlay error.

Natural Resource Programs. Spending for energy research and conservation programs fell $0.4 billion below first resolution estimates and $0.7 billion below revised second budget resolution estimates. Uncertainty over funding, which led to delays in obligations and a general slowdown in activity, produced most of this shortfall. The first and revised second resolutions also overestimated outlays for uranium enrichment by $0.4 billion and $0.2 billion because of lower-than-expected spending for plant, capital activities, and operating expenses. These and other technical estimating errors caused outlay overestimates of $0.5 billion in the first resolution and $1.3 billion in the revised second resolution.

Actual outlays for federal agriculture programs were much different than had been assumed in the 1982 budget resolutions. Technical factors, primarily in estimating price support outlays, accounted for $11.6 billion of outlay overruns in the first resolution and $2.3 billion in the revised second budget resolution. A dramatic decline in commodity prices, which triggered deficiency payments and the heavy use of farm loans, was largely responsible for Commodity Credit Corporation (CCC) outlays that were $11.0 billion higher than projected in the first resolution. (Because the economic forecasts on which budget resolutions are based do not incorporate

specific commodity price assumptions, misestimates resulting from inaccurate farm price assumptions are classified as technical in this analysis.) The revised second budget resolution also underestimated agricultural production levels and the number of commodity loans; as a result, CCC outlays were $1.9 billion greater than assumed.

In commerce and housing credit programs, actual outlays were below the first resolution target by $1.0 billion, of which $850 million was accounted for by the Federal Savings and Loan Insurance Corporation (FSLIC). FSLIC reduced its outlays below projected levels by encouraging mergers of troubled savings and loan associations and by spreading assistance to troubled institutions over longer periods of time. In the revised second budget resolution, total outlays for federal commerce and housing credit programs were underestimated by $0.2 billion because of technical estimating problems. Outlays exceeded expectations for a number of programs, but these were largely offset by lower FSLIC spending.

Outlays for federal community and regional development programs were $2.3 billion lower than assumed in the first resolution and $1.4 billion lower than assumed in the revised second budget resolution as a result of inaccurate estimating methods and assumptions. The resolutions incorrectly assumed that recipients of Community Development Block Grants (CDBG) and Urban Development Action Grants (UDAG) would draw more heavily on obligated balances for these programs than they had in the past in an attempt to compensate for the decline in other revenue sources. The rate of disbursement did not increase, however, causing the first resolution to be overestimated by $1.3 billion and the revised second resolution to be overestimated by $0.3 billion. Fiscal year 1982 was also marked by relatively few natural disasters. As a result, spending for disaster relief was $1.2 billion less than assumed in the first resolution and $0.8 billion less than assumed in the revised second budget resolution.

Human Resource Programs. In the education function, technical estimating errors were relatively unimportant in the first resolution but accounted for an overestimate of $1.0 billion in the revised second budget resolution. While the revised second resolution assumed that a number of prior claims for grants to states for social services would be paid, these claims failed to materialize, causing actual outlays to fall short of projected levels by $0.6 billion.

Outlay overruns of $4.5 billion and $0.3 billion for federal health programs relative to the first and revised second budget resolutions, respectively, can be attributed to technical estimating problems. Misestimates for hospital insurance (HI) and supplementary medical insurance (SMI) caused most of the remaining error in both cases, as hospital and physician costs rose even more rapidly, relative to the general rate of inflation, than

had been assumed. In addition, an unforeseen rise in the number of physician visits helped to push SMI expenditures above projected levels.

A decision by the Administration to reclassify voluntary Medicare premiums as an offset to outlays rather than as revenue reduced outlays by $3.9 billion below the first resolution level. As noted in the previous chapter, however, this error (shown as technical in Table 16) is exactly offset by an equal shortfall in revenues and has no effect on the deficit.

Income security program outlays were overestimated by $1.9 billion in the first resolution and $2.5 billion in the revised second budget resolution as a result of inaccurate technical assumptions. The greatest error occurred in estimating outlays for Social Security disability insurance (DI). DI outlays were $1.1 billion lower than the targets set in the first resolution and $0.5 billion lower than the targets set in the revised second budget resolution as a result of an unforeseen decline in the number of disabled workers. State disability determination services denied more applications for benefits, and the federal government increased the rate of review of existing disability cases and their removal from the rolls. (Because the effects of these procedural changes cannot be distinguished from those of other factors impinging on the benefit rolls, these misestimates are classified as technical.) Outlays for old-age and survivors insurance were overestimated by $0.6 billion in the two budget resolutions because the Social Security Administration fell behind in crediting beneficiaries' earnings and therefore made fewer retroactive benefit payments. In the revised second budget resolution, outlays for food stamps and supplemental security income totaled $0.8 billion below targets, largely because of unexpectedly low program participation rates. Other smaller technical estimating errors also contributed to the outlay shortfall.

Net Interest and Offsetting Receipts. Misestimates for net interest payments were the largest source of error in the first resolution, contributing $14.7 billion to the total budget outlay overrun of $33.0 billion. The effect of unexpectedly high interest rates and other inaccurate economic assumptions, however, was partly offset by technical errors that lowered net interest spending by $3.6 billion relative to the first resolution, and $1.5 billion relative to the revised second. Most of this shortfall resulted from inaccurate assumptions about the seasonality of Treasury borrowing, which was far more concentrated in the final quarter of the year than historical patterns suggested. The CBO interest model has subsequently been changed to improve the estimated seasonal borrowing pattern.

First and revised second budget resolution estimates for receipts from the sale of oil and gas leases on the outer continental shelf were based on the Administration's 1982 budget revisions and 1983 budget. They proved to be $3.5 billion and $1.9 billion too high, respectively (in addition to the error due to the rescheduling of sales, discussed previously).

FISCAL YEAR 1981 OUTLAY ESTIMATES

Actual outlays for 1981 exceeded the levels specified in the first resolution by $46.9 billion. Of this overrun, $18 billion was due to inaccurate legislative assumptions, $16 billion to technical estimating errors, and $6½ billion each to economic and administrative factors. The revised second resolution, however, came within less than $1 billion of actual spending. The following sections provide an assessment of the sources of these outlay errors.

Inaccurate Economic Assumptions

Inaccurate economic assumptions produced outlay overruns totaling $6.4 billion relative to the first resolution and $2.0 billion relative to the revised second budget resolution. Table 17 details the major sources of error in this category.

TABLE 17. MISESTIMATES OF FISCAL YEAR 1981 OUTLAYS BECAUSE OF INACCURATE ECONOMIC ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution	
	First Resolution	Revised Second Resolution
Net Interest		
Interest rates	2.8	2.1
Deficits	0.6	-0.1
Subtotal	3.4	2.2
Other Interest-Sensitive Programs	1.2	0.2
Indexed Retirement and Disability Programs	1.3	-0.1
Unemployment Compensation, Food Stamps, and Public Assistance	0.2	-0.4
Medicare and Medicaid	0.3	---
Total	6.4	2.0

Most of the error resulting from inaccurate economic assumptions is attributable to misestimates of interest-sensitive programs. Higher-than-anticipated interest rates and deficits led to net interest outlays that were $3.4 billion greater than assumed in the first resolution and $2.2 greater than assumed in the revised second resolution. Outlays for guaranteed student loans, which are tied to the three-month Treasury bill rate, were nearly $0.8 billion higher than the level specified in the first resolution and $0.1 billion higher than the target set in the revised second budget resolution. Higher costs were also incurred by the Government National Mortgage Association in providing mortgages at below-market interest rates.

Higher cost-of-living adjustments pushed outlays for indexed retirement and disability programs above the levels specified in the first resolution by a total of $1.3 billion. The largest portion of the inflation-induced error ($0.9 billion) occurred in the Social Security program.

Inaccurate Legislative Assumptions

Inaccurate assumptions about Congressional actions affecting budget totals resulted in an outlay overrun of $17.9 billion relative to the first resolution and an outlay shortfall of $0.7 billion relative to the revised second budget resolution for fiscal year 1981. Table 18 provides a summary of these outlay misestimates.

TABLE 18. MISESTIMATES OF FISCAL YEAR 1981 OUTLAYS BECAUSE OF INACCURATE LEGISLATIVE ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution	
	First Resolution	Revised Second Resolution
National Defense	4.5	-0.7
Energy	3.3	0.8
Natural Resources and Environment	1.0	0.2
Transportation	1.0	-0.4
Health	1.8	*
Income Security	1.8	0.5
Net Interest (Deficits)	1.7	-0.4
All Other	2.9	-0.8
Total	17.9	-0.7

* Less than $50 million.

Inaccurate legislative assumptions regarding defense programs resulted in outlays being underestimated by $4.5 billion in the first resolution, but overestimated by $0.7 billion in the revised second budget resolution. The largest single source of error for defense programs in the first resolution was in defense procurement. The first resolution assumed that reductions would be made in a number of programs with very fast rates of spending. The Congress actually appropriated additional funds for these programs, producing an outlay overrun of $2.8 billion. Inaccurate assumptions about the size of the 1981 military pay raise, together with other unanticipated actions affecting defense pay and benefits, added an additional $1.4 billion to the overrun relative to first budget resolution levels. Most of the remaining error in the first resolution was caused by the Congress failing to pass legislation to reduce the frequency of cost-of-living adjustments for retired military personnel.

The revised second budget resolution was adjusted to include the better part of the legislative actions described above. An outlay shortfall of $0.7 billion did occur, however, as a result of the Congress including less money for defense operation and maintenance accounts in a supplemental appropriation bill than had been assumed.

Inaccurate legislative assumptions also led to misestimates in the first and revised second budget resolutions for the Strategic Petroleum Reserve (SPR). The first resolution assumed that very little oil would be placed in the reserve during 1981. The 1981 Interior appropriation, however, required the reserve to be filled at a rate of 300,000 barrels a day. Consequently, actual expenditures for SPR were $3.1 billion greater than the levels specified in the first resolution and approximately $1.0 billion greater than the levels specified in the revised second budget resolution. Outlays for energy programs as a whole exceeded resolution levels by $3.3 billion and $0.8 billion.

Outlays for various income security programs were underestimated by $1.8 billion in the first resolution and $0.5 billion in the revised second budget resolution because of inaccurate legislative assumptions. The first resolution incorrectly assumed that the Congress would enact legislation replacing the twice-a-year cost-of-living adjustment (COLA) for civil service retirees with an annual increase. The failure of the Congress to pass this legislation caused actual outlays to exceed first budget resolution targets by $0.5 billion in 1981. Outlays were also higher than assumed for public housing operating subsidies, nutrition programs, assistance payments, energy assistance, and refugees.

The remaining legislatively induced errors in the first resolution estimates are attributable to four major factors. First, most of the

legislative savings assumed in the resolution for Medicare and Medicaid were not achieved. Second, actual appropriations for various natural resources and transportation programs and federal civilian agency pay raises were greater than expected. Third, a series of across-the-board cuts in operating expenditures that had been assumed in the first resolution were never implemented, leading to sizable outlay overruns for a number of programs. Finally, as a result of all the other overruns, net interest costs were higher.

Inaccurate Administrative Assumptions

The executive branch took a number of unanticipated actions in 1981 that caused actual outlays to exceed the levels assumed in the first and revised second budget resolutions. Such actions resulted in outlay overruns of $6.6 billion for the first resolution and $0.5 billion for the revised second budget resolution. The sources of these overruns are detailed in Table 19.

Some federal agencies derive a portion of their financial resources from the sale of loan assets. Since these sales generate revenues that directly offset outlays, an unexpected decrease in the level of sales can increase spending. In 1981, federal loan asset sales were lower than the levels assumed in the first and revised second budget resolutions, partly because of higher-than-expected interest rates. This increased budget out-

TABLE 19. MISESTIMATES OF FISCAL YEAR 1981 OUTLAYS BECAUSE OF INACCURATE ADMINISTRATIVE ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution	
	First Resolution	Revised Second Resolution
Loan Asset Sales	1.3	1.0
Settlement of Rail Litigation	2.1	*
Unemployment Compensation	1.4	-1.0
All Other	1.8	0.5
Total	6.6	0.5

* Less than $50 million.

lays by $1.3 billion over first resolution targets and $1.0 billion over revised second budget resolution targets. Most of the estimating error occurred in the Agricultural Credit Insurance Fund, the Rural Housing Insurance Fund, and the veterans' loan guarantee sales progam.

In January 1981 the federal government unexpectedly reached a settlement with the Penn Central Corporation over the value of property that had been transferred to Conrail in 1976. The court-approved settlement increased federal outlays $2.1 billion above the levels assumed in the first budget resolution. By the time of the revised second budget resolution, the effects of the settlement had been included in the estimates.

The unexpected certification of virtually all unemployed automobile workers for trade adjustment assistance benefits led to actual outlays for unemployment compensation that were nearly $1.4 billion greater than assumed in the first budget resolution. This pattern was completely reversed later in the year as the new Administration, alarmed by the growth in trade adjustment assistance payments, began to reject a large number of benefit petitions. The effect of the administration's new policy was to reduce outlays $1.0 billion below revised second budget resolution levels.

Other administrative actions, as well as the effect of administrative actions on interest costs, increased outlays by $1.8 billion over the first budget resolution and by $0.5 billion over the revised second.

Inaccurate Technical Assumptions

Inaccurate technical assumptions caused sizable estimating errors in the 1981 budget resolutions. These errors led to outlays being underestimated by $16.0 billion in the first resolution, and overestimated by $2.7 billion in the revised second budget resolution. Table 20 details the major sources of error in this category.

Defense and International Affairs. Total defense program outlays exceeded the targets set in the first resolution by $6.0 billion, but were $3.2 billion less than assumed in the revised second budget resolution. Much of the error--$1.4 billion in the first budget resolution and $2.5 billion in the revised second budget resolution--was due to inaccurate estimating methods and assumptions. Procurement outlays were underestimated by $1.4 billion in the first resolution because the production and delivery of weapons ran ahead of schedule. Spending for defense operations was overestimated by $1.7 billion in the revised second budget resolution because CBO misjudged the level of outlays associated with the 1981 supplemental appropriation.

TABLE 20. MISESTIMATES OF FISCAL YEAR 1981 OUTLAYS BECAUSE OF INACCURATE TECHNICAL ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution	
	First Resolution	Revised Second Resolution
National Defense	1.4	-2.5
International Affairs	1.3	0.2
Agriculture		
Price supports	2.3	2.5
Other	0.9	0.2
Subtotal	3.2	2.7
Commerce and Housing Credit	2.0	-0.2
Transportation	1.5	*
Community and Regional Development	0.1	-1.9
Education	0.7	-0.5
Health	5.0	2.0
Income Security	1.2	-1.4
Net Interest		
Deficits	3.1	*
Other	0.6	0.9
Subtotal	3.7	0.9
OCS Receipts	-5.1	-1.4
All Other	1.1	-0.5
Total	16.0	-2.7

* Less than $50 million.

Spending for international affairs overran the first resolution assumptions by $1.3 billion as a result of inaccurate technical assumptions. An aggressive reaction to foreign export-credit competition caused Export-Import Bank spending to exceed the resolution level by $0.7 billion. Net spending from the Foreign Military Sales Trust Fund was $0.5 billion greater than assumed, as foreign governments delayed payments to the fund in order to increase interest earnings on their money.

Natural Resource Programs. A record 1981 grain harvest and a sharp increase in government interest rates pushed Commodity Credit Corporation

outlays above the budget resolution targets. Also, farm disaster loans reached record levels. These two events explain why federal agriculture outlays were $3.2 billion over first resolution targets and $2.7 billion over revised second budget resolution estimates.

Federal commerce and housing program expenditures exceeded the first resolution by $2.0 billion. The resolution underestimated the number of loan repurchases by the Government National Mortgage Association, overestimated the number of expected loan sales, and understated outlays by $0.8 billion. The Federal Savings and Loan Insurance Corporation spent $1.0 billion more than assumed in order to provide greater federal assistance to financially troubled institutions.

Community and regional development program outlays were overestimated by approximately $1.9 billion in the revised second budget resolution for technical reasons. The Congress appropriated additional money for disaster relief in response to the Mount St. Helens eruption, regional flooding, and a drought in the midwest, but much of the expected demand for assistance failed to appear. Disaster program outlays were therefore overestimated by $1.0 billion. An unanticipated decline in the rate of spending for community and urban development grant programs added $0.9 to the outlay shortfall.

Human Resource Programs. As shown in Table 20, outlay overruns of $5.0 billion compared to the first resolution and $2.0 billion compared to the revised second budget resolution for federal health programs can be attributed to technical estimating problems. The major misestimates were in the projections for hospital insurance, supplementary medical insurance, and Medicaid. Increased hospital utilization and higher-than-expected medical costs pushed actual outlays for all three programs above budget resolution targets. An unforeseen rise in the beneficiary population for Medicaid and higher-than-expected administrative costs for supplementary medical insurance added to the error.

Inaccurate technical assumptions contributed $1.2 billion to the outlay overrun for income security programs in the first resolution and $1.4 billion to the outlay shortfall in the revised second. The overrun in the first resolution resulted from higher-than-expected spending for food stamps ($1.5 billion), public assistance ($1.0 billion), and civil service retirement ($0.5 billion), only partly offset by lower spending for old-age and survivors and disability insurance ($1.1 billion). Unemployment compensation benefits fell $1.1 billion short of the revised second resolution figure because the

number of insured unemployed grew less rapidly than the national unemployment rate would have indicated.

Net Interest and Offsetting Receipts. Technical estimating errors in net interest totaled $3.7 billion in the first budget resolution and $0.9 billion in the revised second. Of the first resolution error, $3.1 billion was due to the effect of technical errors in revenues and other outlays on debt service costs. Inaccurate assumptions about the seasonal pattern of Treasury borrowing (discussed in connection with the 1982 budget resolutions) accounted for most of the remaining technical error.

Unexpectedly high receipts from sales of oil and gas leases on the outer continental shelf (OCS) caused outlays to be overestimated by $5.1 billion in the first resolution and $1.4 billion in the revised second. Bids for three OCS sales exceeded first resolution assumptions by $3.2 billion. In addition, $1.6 billion in receipts from a sale taking place on the last day of fiscal year 1980 were unexpectedly credited to 1981. In the revised second resolution, the receipts from a number of pending sales were again underestimated, although by a lesser amount.

FISCAL YEAR 1980 OUTLAY ESTIMATES

Actual outlays for 1980 exceeded the levels assumed in the first, second, and revised second budget resolutions by $47.6 billion, $32.0 billion, and $7.0 billion, respectively. Inaccurate technical assumptions were the single most important source of error in each case. They accounted for one-third of the overrun in the first resolution, one-half in the second, and all in the revised second. Inaccurate economic, legislative, and administrative assumptions all contributed to the remaining error in the first and second resolutions. The following sections provide further details.

Inaccurate Economic Assumptions

Table 21 shows that net interest was the greatest source of economic estimating error in the first and second budget resolutions. Overruns amounting to $5.8 billion in the first resolution and $2.6 billion in the second resulted almost entirely from higher-than-anticipated interest rates. In the revised second budget resolution, however, the interest rate assumptions were too high, resulting in an outlay shortfall of $1.5 billion.

TABLE 21. MISESTIMATES OF FISCAL YEAR 1980 OUTLAYS BECAUSE OF INACCURATE ECONOMIC ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution		
	First Resolution	Second Resolution	Revised Second Resolution
Net Interest			
Interest rates	5.5	3.0	-1.6
Deficits	0.2	-0.3	0.1
Subtotal	5.8	2.6	-1.5
Indexed Retirement and Disability Programs	3.7	1.3	0.1
Unemployment Compensation and Public Assistance	1.5	0.3	1.5
Medicare and Medicaid	1.0	1.0	1.0
All Other	0.4	0.3	0.1
Total	12.4	5.5	1.3

Spending for major benefit programs also exceeded resolution levels. Higher inflation pushed up Social Security, Medicare and Medicaid, and military and civilian retirement in all three budget resolutions. In addition, an unexpected rise in the unemployment rate, triggering the national extended unemployment benefits program in July, raised federal outlays above the levels assumed in the first and revised second budget resolutions.

Inaccurate Legislative Assumptions

Differences between anticipated and actual Congressional actions in 1980 resulted in outlay overruns of $12.4 billion from the first resolution, $6.1 billion from the second resolution, and $0.8 billion from the revised second budget resolution. Table 22 shows that about half of these outlay overruns occurred in defense programs.

TABLE 22. MISESTIMATES OF FISCAL YEAR 1980 OUTLAYS BECAUSE OF INACCURATE LEGISLATIVE ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution		
	First Resolution	Second Resolution	Revised Second Resolution
National Defense	6.1	3.3	0.4
Health	1.9	2.0	0.3
Income Security	1.8	0.7	-0.1
All Other	2.6	0.1	0.2
Total	12.4	6.1	0.8

* Less than $50 million.

The Congress appropriated more money for defense in 1980 than assumed in any of the three budget resolutions. Actual budget authority for the national defense function exceeded the budget resolution figures by about $9 billion, $5 billion, and $2 billion, respectively. In part, these increases were intended to cover higher fuel costs and larger pay raises and therefore did not represent an increase in real spending. Real defense spending also rose, however, as the Administration and the Congress responded to the Soviet invasion of Afghanistan, the Iranian taking of American hostages, and increasing international tensions. The increases in budget authority resulted in additional outlays of $6.1 billion, $3.3 billion, and $0.4 billion, as shown in Table 22.

Congressional action or inaction also produced errors in resolution spending estimates for health and income security. Health outlays exceeded the first and second resolution figures by about $2 billion because of failure to enact hospital cost containment legislation. Income security outlays came in $1.8 billion over the first resolution, of which $1.2 billion was due to the unforeseen enactment of low-income energy assistance. The remainder of the overrun, as well as the overrun of $0.7 billion for the second budget resolution, was due largely to unrealized savings in the food stamp and assistance payments programs.

Inaccurate Administrative Assumptions

Executive branch actions caused outlays to surpass the 1980 first and second resolution totals by $7.2 billion and $6.1 billion respectively. The major sources of error are listed in Table 23 and explained below.

Net spending from the foreign military sales trust fund exceeded the first and second resolution amounts by $1.3 billion, mostly as a result of lower trust fund receipts. In October 1979 the Administration, succumbing to pressure from Saudi Arabia, allowed buyers to defer payments by making deposits in off-budget interest-bearing accounts.

The Administration's embargo of grain exports to the Soviet Union raised agriculture outlays $1 billion over the levels assumed in the first and second budget resolutions. Changes in farm price support policies were largely responsible for spending falling $1.2 billion below the revised second budget resolution.

Unexpected administrative actions caused commerce and housing credit outlays to exceed the first and second resolution totals by $1.9 billion. Of this overrun, $1.7 billion was due to smaller loan asset sales by the Government National Mortgage Association and Rural Housing Insurance Fund.

TABLE 23. MISESTIMATES OF FISCAL YEAR 1980 OUTLAYS BECAUSE OF INACCURATE ADMINISTRATIVE ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution		
	First Resolution	Second Resolution	Revised Second Resolution
International Affairs	1.3	1.3	0.1
Agriculture	1.0	1.0	-1.2
Commerce and Housing Credit	1.9	1.9	0.5
Income Security	1.8	1.4	0.7
All Other	1.1	0.5	0.9
Total	7.2	6.1	0.4

Income security outlays were $1.8 billion above the level specified in the first budget resolution, $1.4 billion above the second resolution, and $0.7 billion above the revised second, largely because the Administration certified almost all unemployed automobile workers for trade adjustment assistance.

Inaccurate Technical Assumptions

Inaccurate technical assumptions proved to be the largest source of error in the three 1980 budget resolutions. Table 24 shows that technical

TABLE 24. MISESTIMATES OF FISCAL YEAR 1980 OUTLAYS BECAUSE OF INACCURATE TECHNICAL ASSUMPTIONS (In billions of dollars)

Major Program	Actual Minus Resolution		
	First Resolution	Second Resolution	Revised Second Resolution
National Defense	5.2	2.5	*
International Affairs	1.2	1.0	0.3
Natural Resources and Environment	1.7	1.7	0.3
Agriculture	-1.4	1.5	*
Commerce and Housing Credit	2.6	2.9	1.0
Transportation	2.6	2.3	0.8
Community and Regional Development	1.7	1.5	*
Health	1.0	0.5	0.3
Income Security	1.5	-0.2	-0.8
Net Interest			
Deficits	1.2	1.2	0.2
Other	-0.1	1.6	0.2
Subtotal	1.1	2.8	0.4
OCS Receipts	-1.2	-1.7	0.7
All Other	-0.5	-0.3	1.5
Total	15.6	14.3	4.5

* Less than $50 million.

errors produced outlay overruns of $15.6 billion for the first resolution, $14.3 billion for the second resolution, and $4.5 billion for the revised second resolution.

Defense outlays surpassed the first and second resolution targets by $5.2 billion and $2.5 billion, respectively, because the Department of Defense (DoD) spent its budget authority at a faster rate than had been estimated. Three factors contributed to the outlay overruns. DoD shifted resources from slower-spending to faster-spending programs in an effort to improve force readiness. Defense contractors expedited their billing of DoD because of higher interest rates. And unanticipated inflation increased the cost of labor and materials procured through forward funding.

Several types of nondefense spending also overran the first and second resolutions because of underestimating spendout rates. These included natural resources and environment (especially the Corps of Engineers and the Environmental Protection Agency), transportation (primarily highways and mass transit), and community and regional development (particularly the large grant programs).

In other functions most of the technical estimating error was due to the usually hard-to-predict programs. Overruns occurred in international affairs (foreign military sales and Export-Import Bank), commerce and housing credit (Federal Deposit and Federal Savings and Loan Insurance Corporations), health (Medicare and Medicaid), income security (unemployment compensation), and net interest.

Technical estimating errors explain only two major spending shortfalls. Receipts from oil and gas leases on the outer continental shelf exceeded both first and second resolution figures. Also, poor harvests abroad and the entry of China into the marketplace pushed up food prices and held farm price supports below first resolution estimates.

APPENDIX A. CONGRESSIONAL BUDGET RESOLUTIONS AND ACTUAL BUDGET TOTALS

The actual budget totals for fiscal years 1976 through 1981 shown in the Administration's 1984 budget are not exactly comparable to the budget resolutions for those years because of changes in the budgetary treatment of various items. The purpose of this appendix is to reconcile the differences between the actual budget totals presented in Table 1 (Chapter I) with those contained in the Administration's 1984 budget.

Table A-1 shows the calculations necessary to adjust the budget totals for 1976 through 1981 shown in the 1984 budget document to make them comparable to those used for the budget resolution. No adjustments are necessary for 1982.

Since fiscal year 1976, the budgetary treatment of seven items has changed: the Export-Import Bank, the Housing for the Elderly or Handicapped Fund, the earned income tax credit, the Exchange Stabilization Fund, gold sales, the Pension Benefit Guaranty Corporation, and Medicare premiums. The changes in budgetary treatment are discussed below.

Export-Import Bank. The Export-Import Bank was carried off-budget during 1976 and the transition quarter under the budgets as submitted and the budget resolutions. Beginning with 1977 the activities of the Bank have been recorded on-budget and included in the budget resolution totals, and the historical data have been revised to show a consistent date series. The Bank must, therefore, be excluded from the 1976 and transition quarter totals shown in the budget document historical tables for comparisons with the budget resolutions for these periods.

Housing for the Elderly or Handicapped Fund. The operations of the Housing for the Elderly or Handicapped Fund were removed from the budget by the Housing and Community Development Act of 1974. The 1978 Department of Housing and Urban Development-Independent Agencies Appropriation Act, however, returned this revolving fund to on-budget status. The second budget resolution for 1978 recognized this change in budget status as did the budget documents for 1979 and thereafter. The first resolution for 1978 and all prior resolutions, however, treated the fund as an off-budget entity. The operations of the fund must be excluded from the 1976, transition quarter, and 1977 budget totals shown in the recent budget documents for comparisons with the budget resolutions for these periods.

TABLE A-1. ADJUSTMENTS TO BUDGET TOTALS FOR COMPARISONS WITH BUDGET RESOLUTIONS (In millions of dollars)

	Budget Authority	Receipts	Outlays	Deficit
Fiscal Year 1982				
1984 Budget Document	779,926	617,766	728,375	110,609
Fiscal Year 1981				
1984 Budget Document	718,400	599,272	657,204	57,932
Adjustments				
Medicare	3,340	3,340	3,340	--
Adjusted Totals for Comparisons with Budget Resolutions	721,740	602,612	660,544	57,932
Fiscal Year 1980				
1984 Budget Document	655,852	517,112	576,675	59,563
Adjustments				
Pension Benefit Guarantee Corporation	--	--	27	27
Medicare	2,944	2,944	2,944	--
Adjusted Totals for Comparisons with Budget Resolutions	658,796	520,056	579,646	59,590
Fiscal Year 1979				
1984 Budget Document	554,094	463,302	490,997	27,694
Adjustments				
Pension Benefit Guarantee Corporation	--	--	39	39
Medicare	2,653	2,653	2,653	--
Adjusted Totals for Comparisons with Budget Resolutions	556,747[a]	465,955[a]	493,689[a]	27,733
Fiscal Year 1978				
1984 Budget Document	499,063	399,561	448,368	48,807
Adjustments				
Earned Income Tax Credit	-881	-881	-881	--
Exchange Stablization Fund	--	--	101	101
Gold Sales	-180	--	-180	-180
Pension Benefit Guarantee Corporation	--	--	32	32
Medicare	2,443	2,443	2,443	--
Adjusted Totals for Comparisons with Budget Resolutions	500,445[a]	401,123[a]	449,883[a]	48,761

(Continued)

[a] The receipt and spending figures for 1978 and 1979 differ slightly from those published in CBO analyses of budget estimates for those years as a result of correcting an error in previously reported figures. Receipts and spending have been increased by $6 million in 1978 and $15 million in 1979.

TABLE A-1. (CONTINUED)

	Budget Authority	Receipts	Outlays	Deficit
Fiscal Year 1977				
1984 Budget Document	463,929	355,559	400,506	44,948
Adjustments				
Housing for the Elderly or Handicapped Fund	-850	--	-4	-4
Earned Income Tax Credit	-901	-901	-901	--
Exchange Stabilization Fund	--	--	77	77
Gold Sales	*	--	*	*
Pension Benefit Guarantee Corporation	--	--	16	16
Medicare	2,203	2,203	2,203	--
Adjusted Totals for Comparisons with Budget Resolutions	464,381	356,861	401,897	45,036
Transition Quarter				
1984 Budget Document	90,869	81,232	94,188	12,956
Adjustments				
Export-Import Bank	-384	--	-273	-273
Housing for the Elderly or Handicapped Fund	--	--	3	3
Earned Income Tax Credit	-86	-86	-86	--
Exchange Stabilization Fund	--	--	15	15
Gold Sales	-1	--	-1	-1
Pension Benefit Guarantee Corporation	--	--	*	*
Medicare	541	541	541	--
Adjusted Totals for Comparisons with Budget Resolutions	90,939	81,687	94,387	12,700
Fiscal Year 1976				
1984 Budget Document	414,203	298,060	364,473	66,413
Adjustments				
Export-Import Bank	-728	--	-856	-856
Housing for the Elderly or Handicapped Fund	-750	--	15	15
Earned Income Tax Credit	-808	-808	-808	--
Exchange Stabilization Fund	--	--	74	74
Gold Sales	-63	--	-63	-63
Pension Benefit Guarantee Corporation	--	--	22	22
Medicare	1,945	1,945	1,945	--
Adjusted Totals for Comparisons with Budget Resolutions	413,800	299,197	364,802	65,605

* Less than $500,000.

Earned Income Tax Credit (EITC). The budget resolutions treated the refundable portion of the EITC as an offset to receipts for all budget resolutions prior to fiscal year 1979. Beginning with the 1979 resolutions and the 1980 budget, the refundable portion of the EITC is treated as a budget outlay (with an equal amount for budget authority). To derive actual budget totals that are comparable to the budget resolutions before fiscal year 1979, the refundable portion of the EITC should be deducted from the historical figures for revenues, budget authority, and outlays shown in the Administration budget.

Exchange Stabilization Fund. Beginning with the 1980 budget, the administrative expenses and interest income of this revolving fund have been included in budget outlays. The budget resolutions through 1978, however, treated the fund as an off-budget entity. Thus, the Fund's administrative expenses and interest income should be deducted from the budget totals for outlays and the deficit for 1976 through 1978 to arrive at budget totals comparable to the budget resolution figures.

Gold Sales. Profits on gold sales were reclassified as a means of financing rather than an offsetting collection in the 1980 budget, and historical budget data were adjusted retroactively. To obtain budget totals that are comparable to the budget resolutions, gold sales should be added to the budget figures for 1976 through 1978 as an offsetting receipt.

Pension Benefit Guaranty Corporation (PBGC). Public Law 96-364 provided that the receipts and disbursements of the PBGC be included in the budget totals, beginning with 1981. This change has been reflected in budget resolutions from 1981 onward, and the Office of Management and Budget has adjusted the historical budget data accordingly. For years prior to 1981, PBGC net outlays must be removed from the historical totals for comparability with the budget resolutions.

Medicare Premiums. Beginning with the 1983 budget, the Administration changed the classification of Medicare premiums from revenues to offsetting receipts to reflect the voluntary nature of the payments. This reclassification was made retroactive to 1967, the start of such collections. The following receipts were affected: Supplementary Medicare Insurance premiums collected for the aged and the disabled, and related refunds; and Hospital Insurance premiums for uninsured individuals not otherwise eligible. The revised second budget resolution for 1982 and subsequent resolutions have reflected this change. Historical totals for 1981 and prior years must be adjusted for comparability with the budget resolutions.

APPENDIX B. DATA FOR ANALYSIS OF 1980-1982 OUTLAY ESTIMATES

Tables B-1, B-2, and B-3 summarize the data used for the analyses of budget resolution spending estimates for fiscal years 1980, 1981, and 1982. The data are organized by budget function and by major program categories.

The budget resolution data are based on the assumptions specified by the budget conferees to produce the committee allocations of spending totals accompanying the conference reports. The actual spending data for fiscal years 1980 and 1982 are derived from the Final Monthly Treasury Statement for those years and differ slightly from the figures shown in Appendix A, which are based on revised data published in the budget document. The Final Monthly Treasury Statement data for 1980, however, have been adjusted to reflect a subsequent reduction of $560 million in reported rents and royalties on the outer continental shelf.

TABLE B-1. ESTIMATED AND ACTUAL OUTLAYS FOR FISCAL YEAR 1982
(By function and major program, in millions of dollars)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
NATIONAL DEFENSE (050)			
Department of Defense--Military	184,612	186,010	182,850
Atomic Energy	4,626	4,575	4,309
Defense Related Activities and Other	-438	-3,034	272
Total, 050	188,800	187,550	187,431
INTERNATIONAL AFFAIRS (150)			
Functional Development Assistance	1,139	1,130	1,094
Economic Support Fund	2,383	2,585	2,296
International Development Assistance	542	733	747
Foreign Assistance Program, Agriculture (P.L. 480)	1,138	1,003	929
Other Foreign Economic and Financial Assistance	1,586	1,272	1,084
International Security Assistance	994	1,213	811
Conduct of Foreign Affairs	1,657	1,606	1,630
Foreign Information and Exchange Activities	585	577	571
Export-Import Bank	2,086	1,850	1,173
Foreign Military Sales Trust Fund	0	124	189
Other International Affairs	-960	-693	-545
Total, 150	11,150	11,400	9,979
GENERAL SCIENCE, SPACE, AND TECHNOLOGY (250)			
General Science and Basic Research	1,591	1,614	1,607
Civilian Space Program	5,409	5,386	5,488
Total, 250	7,000	7,000	7,096
ENERGY (270)			
Tennessee Valley Authority	2,000	1,800	1,435
Sale of Minerals and Mineral Products	-1,602	-1,220	-1,389
Other Energy Supply Activities	3,837	3,989	4,841
Emergency Energy Preparedness	906	227	191
Other Energy Programs	64	886	-907
Total, 270	6,000	6,400	4,687

(Continued)

TABLE B-1. (Continued)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
NATURAL RESOURCES AND ENVIRONMENT (300)			
Corps of Engineers	3,002	3,042	2,966
Other Water Resources	1,063	1,069	1,058
Forest Service	1,999	1,940	1,959
Forest Service Receipts	-987	-914	-687
Other Conservation Programs	1,346	1,359	1,540
Recreational Resources	1,399	1,608	1,476
EPA Construction Grants	4,089	4,030	3,756
Other Pollution Control and Abatement Programs	1,296	1,258	1,265
Other Natural Resources	1,650	1,562	1,533
Offsetting Receipts	-2,456	-2,155	-1,720
Total, 300	12,400	12,800	13,146
AGRICULTURE (350)			
Commodity Credit Corporation	2,135	11,240	11,599
Agricultural Credit Insurance Fund	493	471	1,370
Agricultural Research and Services and Other	1,872	2,089	1,910
Total, 350	4,500	13,800	14,879
COMMERCE AND HOUSING CREDIT (370)			
Federal Housing Administration Fund	-168	-245	-237
Government National Mortgage Association	1,227	1,058	1,506
Housing for the Elderly or Handicapped	780	711	742
Rural Housing Insurance Fund	1,482	1,092	1,246
Federal Deposit Insurance Corporation and Federal Savings & Loan Insurance Corporation	-1,240	-1,539	-2,031
Other Mortgage Credit and Thrift Insurance	124	74	-31
Postal Service Subsidy	869	834	707
Small Business Administration (SBA)	615	727	932
Other Advancement of Commerce	311	1,038	1,029
Total, 370	4,000	3,750	3,863

(Continued)

TABLE B-1. (Continued)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
TRANSPORTATION (400)			
Federal Aid Highways	8,100	8,065	7,789
Urban Mass Transportation Fund	3,541	3,766	3,864
Other Land Transportation	2,438	2,987	2,674
Federal Aviation Administration	3,307	3,120	2,893
Other Air Transportation	631	641	645
Coast Guard	2,030	2,061	2,070
Maritime Administration	577	643	650
Other Water Transportation	-7	2	24
Other	-216	15	-28
Total, 400	20,400	21,300	20,533
COMMUNITY AND REGIONAL DEVELOPMENT (450)			
Community Development Block Grants	4,703	4,005	3,792
Other Community Development	1,207	1,064	818
Area and Regional Development	2,410	2,825	2,606
SBA Disaster Loan Fund	72	-27	-302
Other	308	633	148
Total, 450	8,700	8,500	7,062
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (500)			
Elementary, Secondary, and Vocational Education	6,019	6,739	6,553
Higher Education	7,290	7,247	6,400
Research and General Education Aids	1,337	1,408	1,407
CETA Employment and Training Programs	4,924	4,265	4,148
Other Employment and Training	1,483	1,385	1,381
Other Labor Services	610	583	589
Social Services Grants	2,054	2,075	2,055
Human Development Services and Other	3,134	4,397	3,843
Total, 500	26,850	28,100	26,377

(Continued)

TABLE B-1. (Continued)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
HEALTH (550)			
Medicare	47,015	49,800	50,424
Premiums and Collections (FHI and FSMI Trust Funds)	--	-3,862	-3,856
Medicaid	17,089	17,874	17,391
Other Health Programs	9,245	9,888	10,055
Total, 550	73,350	73,700	74,015
INCOME SECURITY (600)			
Social Security (OASDI)	153,676	157,333	155,964
Railroad Retirement	5,877	5,321	5,339
Railroad Retirement Receipts from FOASI	-1,920	-2,001	-1,820
Other Retirement and Disability	1,799	2,296	2,373
Federal Employment, Retirement, and Disability	19,521	19,608	19,392
Unemployment Compensation	18,584	22,979	23,702
Housing Assistance	8,286	8,247	8,041
Food Stamps	10,657	11,489	11,014
Other Nutrition Programs	4,211	4,570	4,567
Suplemental Security Income	7,938	7,866	7,677
Public Assistance (AFDC)	7,534	8,121	7,990
Earned Income Tax Credit	1,115	1,254	1,201
Other Income Security	2,422	3,216	2,893
Total, 600	239,700	250,300	248,333
VETERANS' BENEFITS AND SERVICES (700)			
Compensation and Pensions	13,312	13,088	13,296
Insurance Programs	662	644	414
Education, Training, and Rehabilitation	1,955	2,011	2,005
Hospital and Medical Care	7,678	7,522	7,577
Other Benefits and Services	443	537	739
Total, 700	24,050	23,800	23,970

(Continued)

TABLE B-1. (Continued)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
ADMINISTRATION OF JUSTICE (750)			
Federal Law Enforcement Activities	2,482	2,525	2,529
Federal Litigative and Judicial Activities	1,305	1,463	1,516
Other Administration of Justice	663	612	626
Total, 750	4,450	4,600	4,671
GENERAL GOVERNMENT (800)			
Legislative Functions	1,043	1,129	1,177
Internal Revenue Service	2,551	2,537	2,513
Other General Government Programs	1,306	1,334	1,009
Total, 800	4,900	5,000	4,699
GENERAL PURPOSE FISCAL ASSISTANCE (850)			
General Revenue Sharing	4,574	4,573	4,575
Other General Purpose Fiscal Assistance	1,826	1,727	1,737
Total, 850	6,400	6,300	6,312
INTEREST (900)			
Interest on the Public Debt	101,800	118,360	117,190
Interest from Off-Budget Agencies	-11,641	-12,948	-12,296
Other Interest	-4,459	-4,711	-4,185
Total, 900	85,700	100,700	100,710
ALLOWANCES (920)	0	800	0
UNDISTRIBUTED OFFSETTING RECEIPTS (950)			
Employer Share, Employee Retirement	-6,775	-7,170	-7,028
Interest Received by Trust Funds	-15,700	-16,344	-16,059
OCS Rents and Royalties	-11,300	-8,161	-6,250
Unallocated	875	25	0
Total, 950	-32,900	-31,700	-29,377
TOTAL, ALL FUNCTIONS	695,450	734,100	728,424

TABLE B-2. ESTIMATED AND ACTUAL OUTLAYS FOR FISCAL YEAR 1981
(By function and major programs, in millions of dollars)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
NATIONAL DEFENSE (050)			
Department of Defense-Military	150,045	159,366	136,996
Atomic Energy	3,321	3,382	2,998
Defense-Related Activities and Other	317	-49	272
Total, 050	153,730	162,900	139,763
INTERNATIONAL AFFAIRS (150)			
Functional Development Assistance	1,025	1,026	1,019
Economic Support Fund	2,272	2,041	2,032
International Development Association	968	676	689
Foreign Assistance Program, Agriculture (P.L. 480)	1,079	1,366	1,253
Other Foreign Economic and Financial Assistance	1,369	1,456	1,367
International Security Assistance	900	966	1,378
Conduct of Foreign Affairs	1,403	1,497	1,367
Foreign Information and Exchange Activities	725	769	729
Export-Import Bank	1,032	2,284	1,366
Foreign Military Sales Trust Fund	0	0	478
Other International Affairs	-667	-671	-611
Total, 150	9,900	11,290	11,130
GENERAL SCIENCE, SPACE, AND TECHNOLOGY (250)			
General Science and Basic Research	1,916	1,672	1,683
Civilian Space Program	4,196	4,728	4,877
Total, 250	6,108	6,398	6,559
ENERGY (270)			
Tennessee Valley Authority	2,000	2,000	1,766
Sale of Minerals and Mineral Products	-1,689	-1,290	-861
Other Energy Supply Activities	4,333	4,719	4,576
Emergency Energy Preparedness	900	2,418	3,286
Other Energy Programs	1,736	1,717	1,438
Total, 270	6,800	9,800	10,207

(Continued)

TABLE B-2. (Continued)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
NATURAL RESOURCES AND ENVIRONMENT (300)			
Corps of Engineers	2,833	3,167	3,136
Other Water Resources	817	1,083	1,079
Forest Service	1,762	1,822	1,913
Forest Service Receipts	-834	-836	-715
Other Conservation Programs	1,240	1,365	1,377
Recreational Resources	1,342	1,501	1,631
EPA Construction Grants	4,005	4,342	3,881
Other Pollution Control and Abatement Programs	1,129	1,208	1,288
Other Natural Resources	1,378	1,478	1,484
Offsetting Receipts	-1,572	-1,530	-1,550
Total, 300	12,100	13,600	13,525
AGRICULTURE (350)			
Commodity Credit Corporation	1,486	1,263	3,944
Agricultural Credit Insurance Fund	-1,070	-653	-228
Agricultural Research and Services and Other	1,884	2,090	1,856
Total, 350	2,300	2,700	5,572
COMMERCE AND HOUSING CREDIT (370)			
Federal Housing Administration Fund	-71	47	182
Government National Mortgage Association	-32	832	1,148
Housing for the Elderly or Handicapped	731	840	817
Rural Housing Insurance Fund	-962	-764	-130
Federal Deposit Insurance Corporation and Federal Savings & Loan Insurance Corporation	-2,102	-1,035	-1,353
Other Mortgage Credit and Thrift Insurance	-28	43	-13
Postal Service Subsidy	1,094	1,593	1,343
Small Business Administration (SBA)	725	745	811
Other Advancement of Commerce	645	1,099	1,141
Total, 370	0	3,400	3,946

(Continued)

TABLE B-2. (Continued)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
TRANSPORTATION (400)			
Federal Aid Highways	7,575	8,387	8,822
Urban Mass Transportation Fund	2,943	3,948	3,855
Other Land Transportation	2,383	5,092	4,423
Federal Aviation Administration	2,906	3,109	3,157
Other Air Transportation	621	690	693
Coast Guard	1,725	1,854	1,831
Other Water Transportation	565	661	589
Other	33	161	12
Total, 400	18,750	23,900	23,381
COMMUNITY AND REGIONAL DEVELOPMENT (450)			
Community Development Block Grants	4,456	4,700	4,042
Other Community Development	1,058	1,309	1,069
Area and Regional Development	2,741	2,767	2,708
SBA Disaster Loan Fund	377	1,493	1,101
Other	568	1,131	474
Total, 450	9,200	11,400	9,394
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (500)			
Elementary, Secondary, and Vocational Education	7,723	7,173	7,043
Higher Education	5,073	6,894	6,789
Research and General Education Aids	1,381	1,427	1,223
CETA Employment and Training Programs	7,712	7,710	7,699
Other Employment and Training	1,521	1,537	1,542
Other Labor Services	571	592	586
Social Services and Other	5,519	6,464	6,518
Total, 500	29,500	31,800	31,402

(Continued)

TABLE B-2. (Continued)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
HEALTH (550)			
Medicare	37,989	40,895	42,488
Medicaid	15,549	16,153	16,833
Other Health Programs	8,162	9,752	10,001
Total, 550	61,700	66,800	69,322
INCOME SECURITY (600)			
Social Security (OASDI)	139,965	139,381	139,584
Railroad Retirement	5,147	5,310	5,294
Railroad Retirement Receipts from FOASI	-1,542	-1,632	-1,614
Other Retirement and Disability	1,970	1,857	1,760
Federal Employment, Retirement, and Disability	16,751	17,522	17,547
Unemployment Compensation	18,786	22,216	19,664
Housing Assistance	6,562	6,865	6,942
Food Stamps	9,368	11,242	11,253
Other Nutrition Programs	4,699	5,002	4,949
Supplemental Security Income	7,015	7,210	7,192
Public Assistance (AFDC)	7,125	7,962	8,503
Earned Income Tax Credit	1,570	1,203	1,318
Other Income Security	2,134	3,462	2,707
Total, 600	219,550	227,600	225,099
VETERANS BENEFITS AND SERVICES (700)			
Compensation and Pensions	11,966	12,324	12,181
Insurance Programs	612	733	728
Education, Training, and Rehabilitation	1,903	2,203	2,254
Hospital and Medical Care	6,550	6,585	6,965
Other Veterans Benefits and Services	169	955	860
Total, 700	21,200	22,800	22,988

(Continued)

TABLE B-2. (Continued)

Function and Major Program	First Resolution Assumptions	Revised Second Resolution Assumptions	Actual
ADMINISTRATION OF JUSTICE (750)			
Federal Law Enforcement Activities	2,224	2,285	2,384
Federal Litigative and Judicial Activities	1,380	1,427	1,493
Other Administration of Justice	996	988	821
Total, 750	4,600	4,700	4,698
GENERAL GOVERNMENT (800)			
Legislative Branch	1,005	1,092	1,036
Internal Revenue Service	2,416	2,349	2,430
Other General Government Programs	879	1,559	1,148
Total, 800	4,300	5,000	4,614
GENERAL PURPOSE FISCAL ASSISTANCE (850)			
General Revenue Sharing	5,150	5,166	5,140
Other General Purpose Fiscal Assistance	1,650	1,634	1,716
Total, 850	6,800	6,800	6,856
INTEREST (900)			
Interest on the Public Debt	84,400	93,100	95,503
Interest from Off-Budget Agencies	-8,088	-8,867	-8,619
Other Interest	-4,112	-4,733	-4,347
Total, 900	72,200	79,500	82,537
UNDISTRIBUTED OFFSETTING RECEIPTS (950)			
Employer Share, Employee Retirement	-6,200	-6,400	-6,371
Interest Received by Trust Funds	-13,300	-13,800	-13,810
OCS Rents and Royalties	-5,200	-8,700	-10,138
Undistributed	--	100	--
Total, 950	-24,700	-28,800	-30,320
TOTAL, ALL FUNCTIONS	613,600	661,350	660,544

TABLE B-3. ESTIMATED AND ACTUAL OUTLAYS FOR FISCAL YEAR 1980
(By function and major programs, in millions of dollars)

Function and Major Program	First Resolution Assumptions	Second Resolution Assumptions	Revised Second Resolution Assumptions	Actual
NATIONAL DEFENSE (050)				
Department of Defense-Military	121,766	126,958	132,675	132,839
Atomic Energy	2,268	2,775	2,977	2,878
Defense-Related Activities and Other	166	167	48	142
Total, 050	124,200	129,900	135,700	135,859
INTERNATIONAL AFFAIRS (150)				
Functional Development Assistance	827	827	943	976
Economic Support Fund	1,857	2,006	2,043	1,872
International Development Association	502	525	460	472
Foreign Assistance Program, Agriculture (P.L. 480)	948	1,007	1,094	1,073
Other Foreign Economic and Financial Assistance	1,003	1,115	1,053	975
International Security Assistance	878	842	895	939
Conduct of Foreign Affairs	1,306	1,369	1,355	1,338
Foreign Information and Exchange Activities	423	422	429	433
Export-Import Bank	504	704	1,594	1,836
Foreign Military Sales Trust Fund	-273	-299	901	1,138
Other International Affairs	-51	-94	-267	-329
Total, 150	7,924	8,424	10,500	10,723
GENERAL SCIENCE, SPACE, AND TECHNOLOGY (250)				
General Science and Basic Research	1,382	1,395	1,408	1,381
Civilian Space Program	4,145	4,332	4,492	4,349
Total, 250	5,527	5,727	5,900	5,730
ENERGY (270)				
Tennessee Valley Authority	1,800	1,800	1,800	1,710
Sale of Minerals and Mineral Products	-777	-1,074	-1,492	-1,207
Other Energy Supply Activities	3,421	4,224	4,262	4,071
Emergency Energy Preparedness	961	1,035	505	342
Other Energy Programs	1,399	1,269	1,325	1,385
Total, 270	6,804	7,254	6,400	6,301

(Continued)

TABLE B-3. (Continued)

Function and Major Program	First Resolution Assumptions	Second Resolution Assumptions	Revised Second Resolution Assumptions	Actual
NATURAL RESOURCES AND ENVIRONMENT (300)				
Corps of Engineers	2,624	2,901	3,248	3,218
Other Water Resources	906	902	1,114	1,072
Forest Service	1,637	1,698	1,690	1,799
Forest Service Receipts	-783	-787	-786	-603
Other Conservation Programs	1,218	1,174	1,262	1,216
Recreational Resources	1,507	1,641	1,516	1,707
EPA Construction Grants	3,539	3,310	4,300	4,343
Other Pollution Control and Abatement Programs	1,167	1,162	1,137	1,167
Other Natural Resources	1,331	1,340	1,356	1,417
Offsetting Receipts	-1,343	-1,339	-1,437	-1,499
Total, 300	11,802	12,002	13,400	13,835
AGRICULTURE (350)				
Commodity Credit Corporation	3,656	649	4,086	2,718
Agricultural Credit Insurance Fund	187	291	235	478
Agricultural Research and Services and Other	1,572	1,625	1,579	1,568
Total, 350	5,415	2,565	5,900	4,764
COMMERCE AND HOUSING CREDIT (370)				
Federal Housing Administration Fund	55	55	148	151
Government National Mortgage Association	377	398	1,211	1,331
Housing for the Elderly or Handicapped	642	642	641	753
Rural Housing Insurance Fund	271	301	1,802	1,717
Federal Deposit Insurance Corporation and Federal Savings & Loan Insurance Corporation	-1,696	-1,944	-1,298	-368
Other Mortgage Credit and Thrift Insurance	-77	-82	170	82
Postal Service Subsidy	1,694	1,694	1,677	1,677
Small Business Administration (SBA)	799	799	740	950
Other Advancement of Commerce	1,184	1,036	1,009	1,211
Total, 370	3,248	2,898	6,100	7,504

(Continued)

TABLE B-3. (Continued)

Function and Major Program	First Resolution Assumptions	Second Resolution Assumptions	Revised Second Resolution Assumptions	Actual
TRANSPORTATION (400)				
Federal Aid Highways	7,084	7,334	8,712	8,838
Urban Mass Transportation	2,619	2,807	2,698	3,307
Other Land Transportation	2,598	2,616	2,712	2,855
Federal Aviation Administration	3,143	3,147	3,054	3,137
Other Air Transportation	592	593	754	617
Coast Guard	1,543	1,547	1,533	1,615
Maritime Administration	547	529	637	640
Other Water Transportation	218	170	144	142
Offsetting Receipts and Other	-41	-40	-44	-42
Total, 400	18,303	18,703	20,200	21,109
COMMUNITY AND REGIONAL DEVELOPMENT (450)				
Community Development Block Grants	3,329	3,450	3,976	3,902
Other Community Development	1,008	986	1,091	983
Area and Regional Development	2,580	2,533	2,640	3,174
SBA Disaster Loan Fund	676	818	1,089	948
Other	584	659	985	1,061
Total, 450	8,177	8,446	9,782	10,069
EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES (500)				
Elementary, Secondary, and Vocational Education	7,345	7,600	7,456	7,522
Higher Education	5,215	5,360	5,548	5,677
Research and General Education Aids	1,408	1,381	1,366	1,379
CETA Employment and Training Programs	9,242	9,234	8,396	8,861
Other Employment and Training	1,368	1,427	1,378	1,501
Other Labor Services	512	550	551	551
Social Services Grants	3,045	3,045	2,870	2,763
Human Development Services and Other	2,395	2,433	2,335	2,570
Total, 500	30,530	31,030	29,900	30,824

(Continued)

TABLE B-3. (Continued)

Function and Major Program	First Resolution Assumptions	Second Resolution Assumptions	Revised Second Resolution Assumptions	Actual
HEALTH (550)				
Medicare	31,965	32,507	33,723	35,025
Medicaid	12,676	13,132	14,091	13,957
Other Health Programs	8,999	8,851	8,686	9,182
Total, 550	53,640	54,490	56,500	58,164
INCOME SECURITY (600)				
Social Security (OASDI)	118,162	120,110	119,712	118,559
Railroad Retirement Account	4,657	4,657	4,707	4,737
Railroad Retirement Receipts from FOASI	-1,439	-1,439	-1,466	-1,441
Other Retirement and Disability	1,469	1,940	1,978	1,916
Federal Employment, Retirement, and Disability	14,068	14,447	14,608	14,673
Unemployment Compensation	13,981	15,280	15,757	18,005
Housing Assistance	5,318	5,318	5,225	5,511
Food Stamps	7,493	8,056	9,138	9,117
Other Nutrition Programs	4,144	4,109	4,573	4,886
Supplemental Security Income	6,267	6,267	6,327	6,411
Public Assistance (AFDC)	6,832	7,283	7,176	7,308
Earned Income Tax Credit	1,874	1,874	1,696	1,275
Other Income Security	553	2,177	2,269	2,124
Total, 600	183,379	190,079	191,700	193,081
VETERANS BENEFITS AND SERVICES (700)				
Compensation and Pensions	11,697	11,849	10,823	11,202
Insurance Programs	303	311	594	486
Education, Training, and Rehabilitation	2,300	2,037	2,258	2,342
Hospital and Medical Care	6,004	6,295	6,331	6,515
Other Veterans Benefits and Services	435	447	497	662
Total, 700	20,736	20,936	20,500	21,204

(Continued)

TABLE B-3. (Continued)

Function and Major Program	First Resolution Assumptions	Second Resolution Assumptions	Revised Second Resolution Assumptions	Actual
ADMINISTRATION OF JUSTICE (750)				
Federal Law Enforcement Activities	2,121	2,155	2,087	2,236
Federal Litigative and Judicial Activities	1,324	1,290	1,312	1,335
Other Administration of Justice	1,021	1,021	1,001	999
Total, 750	4,466	4,466	4,400	4,570
GENERAL GOVERNMENT (800)				
Legislative Branch	988	975	1,077	1,032
Internal Revenue Service	2,229	2,230	2,151	2,335
Other General Government Programs	1,131	1,025	1,190	1,131
Total, 800	4,348	4,230	4,419	4,678
GENERAL PURPOSE FISCAL ASSISTANCE (850)				
General Revenue Sharing	6,469	6,869	6,869	6,835
Antirecession Fiscal Assistance				
Other General Purpose Fiscal Assistance	1,631	2,181	1,681	1,749
Total, 850	8,100	9,050	8,550	8,584
INTEREST (900)				
Interest on the Public Debt	64,906	67,550	75,500	74,860
Interest from Off-Budget Agencies	-5,538	-5,734	-6,324	-5,950
Other Interest	-3,368	-3,715	-4,075	-4,405
Total, Interest	56,000	58,100	65,100	64,505
UNDISTRIBUTED OFFSETTING RECEIPTS (950)				
Employer Share, Employee Retirement	-5,599	-5,599	-5,899	-5,785
Interest Received by Trust Funds	-11,199	-11,699	-11,599	-12,044
OCS Rents and Royalties	-2,899	-2,399	-4,799	-4,101
Total, 950	-19,699	-19,699	-22,299	-21,933
TOTAL, ALL FUNCTIONS	532,000	547,600	572,650	579,571

NOTE: Detail may not add to totals because of rounding.